

# Organizational capabilities as a source of competitive advantage: a conceptual framework

## *Organizační potenciál jako zdroj konkurenční výhody: teoretický model*

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**Abstract:** Organizational capabilities are recognized in the resource-based view strategy literature as one of the primary source of competitive advantage. This article reviews models to analyse organizational capabilities to provide framework for wider adoption of the concept of organizational capabilities both by researchers and practitioners.

**Key words:** organizational capability, competitive advantage, resource-based view

**Abstrakt:** Způsobilost organizace je v literatuře vycházející ze zdrojového přístupu k tvorbě konkurenční výhody vnímána jako jeden z hlavních zdrojů konkurenceschopnosti. V příspěvku jsou popsány modely pro analýzu organizační způsobilosti. Tyto modely nabízejí detailně rozpracované postupy pro identifikaci jednotlivých složek organizační způsobilosti a přispívají tak k širšímu přijetí konceptu jak výzkumníky, tak praktiky.

**Klíčová slova:** organizační způsobilost, konkurenční výhoda, zdrojový přístup

Over the last fifteen years, two distinctive strands of strategy literature explaining sources of competitive advantage have developed. One builds predominantly on the theory of industrial organization, the other, currently the prominent theory, is a resource-based view (RBV). The RBV attempts to explain business performance in terms of the firm-specific skills and resources that are valuable, inimitable, rare, and non-substitutable (Barney 1991). Main argument of the RBV is that a firm is a bundle of heterogeneous resources and capabilities, which supports the competitive advantage and explains the variance in performance across companies (Conner 1991). Beyond the traditional tangible resources of land, labour and capital, the RBV literature recognizes and emphasizes the importance of intangible resources and capabilities in generating the above-normal rent (Conner 1991; Tichá and Hron 2006). This article focuses on one of the intangible resources – organizational capabilities – with an attempt to explore its notion with regard to its contribution to the competitive advantage of a business.

## OBJECTIVES AND METHODS

This article builds on the core notion of the resource-based view and aims at framing the organizational capabilities as a source of competitive advantage. By defining organizational capabilities through literature review, the article arrives at models facilitating a deeper insight and thus a better understanding and application of the notion of organizational capabilities in companies.

## RESULTS AND DISCUSSION

The notion of organizational capabilities has been developed within the resource-based view of the firm (namely Barney 1991; Hunt and Morgan 1996). Organizational capabilities are defined as an organization's capacity to deploy its assets, tangible or intangible, to perform a task or activity to improve the performance (Maritan 2001). Barney (2002) defines

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organizational capabilities as the firm attributes that enable organizations to coordinate and utilize their resources. Makadok (2001) emphasizes the distinction between capabilities and resources by defining capabilities as “a special type of resource, specifically an organizationally embedded non-transferable firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm” (Makadok 2001, p. 389). Eisenhardt and Martin (2000) define dynamic capabilities as “the firm processes that use resources to match and even create market change” (p. 1107).

The distinction between resources and capabilities is the source of the uniqueness of firms across the market. Although firms have access to common resources, it is their capabilities to configure and deploy these resources and to obtain distinct services from these resources, which leads to a differentiated offering, a real source of heterogeneity. This does not imply that resources cannot provide firms with rents, but it is capabilities that are a more consistent source of rent since they are more prone to market failure (Penrose 1997).

Tangible resources' ownership and value are easy to measure. They are relatively imitable, substitutable (Barney 1991), and transparent (Grant 1991) and hence easily duplicated by competitors. Intangible resources are harder to duplicate than the tangible resources due to their non-physical and often ambiguous nature. Intangible resources include organizational routines, organizational processes, management skills, knowledge, information (Conner 1991), customer orientation, organizational know-how, intellectual property, quality, brand image, reputation, company networks and databases (Grant 1991). Firms create competitive advantage by combining resources that work together to create organizational capabilities (Ulrick and Lake 1991). Capabilities are the combination of resources, organizational routines, and interactions through which the firm's resources are coordinated (Grant 1991). They are based on tacit knowledge and hence are often inimitable and non-substitutable. Their interaction-based nature and casual ambiguity make them more difficult to duplicate.

In general, organizational capabilities can play the following roles in an organization:

- Strengthening competitive advantage through building strategy on understanding of the strengths and weaknesses of the workforce
- Establishing the Human Resources Development function as a strategic partner. In this way, organizational capability acts as a linchpin between strategy and human resources (HR), therefore, HR become a proactive source of competitive advantage

rather than reactive in focusing on the performance gaps.

- Driving organisational outcomes, such as stakeholder satisfaction and customer satisfaction.
- Improving person-organisation fit from selection processes, more favourable employee attitudes, and reinforcement of the appropriate organisational design.
- Communicating valued behaviours, raising competency levels and reinforcing positive values.

The following three models provide the framework for the analysis of organizational capabilities and thus contribute to the wider adoption of the concept.

*Organisational Capability Questionnaire* Hase and colleagues (Hase 2000) constructed this diagnostic, self-report instrument of 35 items. They identified 10 key factors:

- (1) Recognition by all levels of staff of the enormous complexity and ongoing nature of the organisational change and development that affect all levels of the organisation. This recognition involves an appropriate commitment of time, energy and resources.
- (2) A CEO who unambiguously supports a vision of the future consistent with many of the elements of capability. This support meant that resistance can be overcome and that innovators and ‘champions for change’ could thrive.
- (3) Skilled leaders (rather than ‘managers’) who have an excellent grasp of the ‘soft’ or people oriented skills associated with leadership. Leaders also have the capacity to manage the complexity of change and its effects on people.
- (4) Team based structures that enable people to be involved in decision making, to have access to knowledge and information, and to have responsibility for their own work.
- (5) Adequate reward systems that provide for the intrinsic and extrinsic needs of people. Intrinsic rewards are seen as being actively involved in decisions about work, having the access to the right information and training opportunities. These issues largely centre on the feelings of empowerment. Extrinsic rewards, such as financial and other benefits, are often articulated in an enterprise bargaining agreement.
- (6) Members of the organisation feel that individual elements (such as being valued and encouraging self-esteem) are embedded in the organisation's operations with the resultant perception of real empowerment (particularly in relation to learning control) being evident to all. People want to feel that their abilities are recognised and used.

- (7) Opportunities for multi-skilling provided by the commitment to the development of competencies.
- (8) A clear focus and commitment to learning.
- (9) Performance evaluation which is perceived by the staff to be carried out clearly and equitably.
- (10) The provision of time and resources for the staff learning and development.

*Model of Organisational Capability:* This model was developed by Gill and Delahaye (2004) and is based on three domains:

**1. Strategic intent** is the sphere of influence defining the capabilities of people employed, operational processes and future direction.

- *Explicit direction*

Future direction of organizations is made explicit through the mission statement and/or by the description of the deliverables of strategic plans.

- *Qualities of workforce*

This focuses on the workforce's qualities through the knowledge audit report, or indirectly, in job descriptions.

- *Inform organisational processes*

This includes management processes such as organisational structures and hierarchies, technical systems and the values and norms of the organisation

- *Inform future direction*

Information-sharing across the boundaries triggers the development of the future expertise that the individuals may need to develop giving the organisation the optimum flexibility and the direction for innovation

**2. Organizational structure** in terms of the processes supporting human resources.

- *Meaningful job roles*

Alignment of job roles with the strategic intent is needed to anticipate changes. This allows both the organisation and individuals to be more flexible in how they respond to the movements in the domains.

- *Guided performance management*

Guided performance management explicitly describes how jobs and organisational processes support the strategic intent, and it can be used as a vehicle for the organisational change and learning.

**3. Individual knowledge** of people employed by the organization.

- *Clearly defined core knowledge, skills and abilities*

This definition helps the organization to reach the optimum workforce to support future plans,

to create stability and to provide for the career development.

- *Current and future knowledge networks*

Knowledge networks need to support both the current job contexts and the future potential innovations. The attention to supporting both provides the organisation with the added flexibility in responding to changes in the defined core capabilities.

Organizational capability is built in organisations by aligning the organisational systems and processes represented in the model, to maximize the alignment of the enablers –the enabling systems and processes at the intersections of the three domains of strategic intent, organisational structures and individual knowledge.

*EFQM (European Foundation for Quality Management) Excellence Model* is widely used organisational framework in Europe and it is the basis for the majority of national and regional Quality Awards. Used as a tool for assessment, it delivers a picture of how well the organisation compares to similar or very different kinds of organisation. Used as a management model, it can be used to define the aspirations for the organisation's capability and performance Underpinning this model are the principles of knowing where your organisation is, where it wants to go and how it can get there. The model is based on nine criteria

- five enablers (leadership, people, policy and strategy, partnerships and resources, and processes) The enablers criteria cover what an organisation does and how it does it.
- four results (people results, customer results, society results, and key performance indicators). The results criteria cover what an organisation achieves.

Results are caused by enablers and enablers are improved using the feedback from results. What appears useful about this model is its non-prescriptive nature, its holistic approach in examining all areas of the organisation, and that it is a self-assessment process based on obtaining the factual evidence to provide a more balanced set (compared to some other models) of results indicators beyond the financial ones.

## CONCLUSIONS

Models of organizational capabilities offer researchers and practitioners a framework for defining and developing organizational capabilities. The models can be used by researchers to examine the forces that build organizational capabilities in organisations, and

to compare the approaches of different organisations, to determine the critical success factors. Practitioners wishing to adopt an organizational capabilities concept can draw on the models to assist them to:

- Define their core organizational capabilities to provide a clear focus for developing the enabling systems and processes.
- Define their domains of influence (strategic intent, organisational structures and individual knowledge).
- Examine the alignment of enabling systems and processes to build their organizational capabilities.

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