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| Faculteit Bedrijfswetenschappen  
en Economie

# Internal analysis

## Identification of core competences

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# Structure of the course

- Agreements  
Slides
- Concept: What is strategy?  
Slides/lecture materials + H2 course
- Concept: Competitive advantage and value creation  
Slides/lecture materials + H3 course
- Technique: External analysis  
Slides/lecture materials + H4 course
- **Technique: Internal analysis and core competencies**  
**Slides/lecture materials + H5 course**
- Strategic choice: Growth and portfolio strategy  
Slides/lecture materials + H7 course
- Organization & follow-up: Sustainability  
Slides/lecture materials
- Organization & follow-up: Culture  
Slides/lecture materials + H8 course

# Today's class

- General background information & importance of an internal analysis
- Theoretical anchors
  - A resource typology
  - The resource-based view of the firm
- How to perform an internal analysis?
  - Step 1 – Identifying the resource configuration
    - Analyzing the functional activities, for example through
      - Porter's value chain
    - Analyze hard/soft elements in the organization, for example through
      - The 7-S model
    - Defining a hierarchy of capabilities

# Today's class (continued)

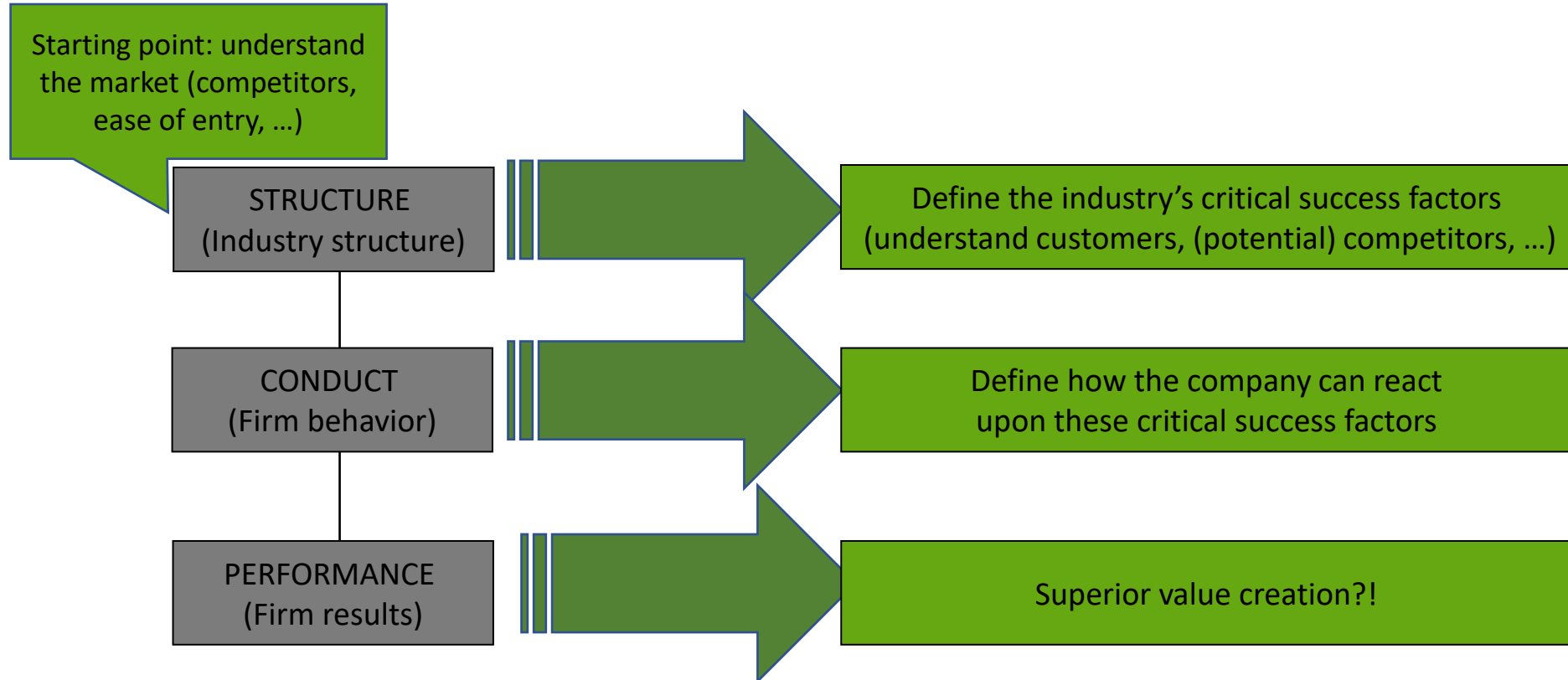
- How to perform an internal analysis? (continued)
  - Step 2 – Defining the external value of the organization's competences → core/distinctive capabilities/ competences
    - Buyers/clients
    - Competitors
  - Step 3 – Assuring potential profit, cfr. Value capturing
- Case: Cirque du Soleil



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# General background information & Importance of an internal analysis

# External analysis



# Internal analysis

- (1) Can explain you WHY a company is better able to position itself in the industry
  - Define the resources/capabilities necessary to survive & excel on the market!
  - E.g., budget airlines; CSF & Strength = low operating costs. Resources necessary are a standardized fleet of fuel-efficient planes, a young, non-unionized workforce, ...
- (2) Customer preferences might be volatile (as do other external circumstances).
  - The firm itself (= its resources, capabilities) can provide a “stable” starting point to define a firm’s long-term strategy!

# For example: SW(OT) – analysis

- Strengths

- Market dominance
- High product quality
- Able to maintain its low cost position

Making a list of these strengths does not explain **WHY** the company is able to maintain high quality, a low cost position, market dominance, ...





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# Theoretical anchors

## A resource typology

### The resource-based view of the firm

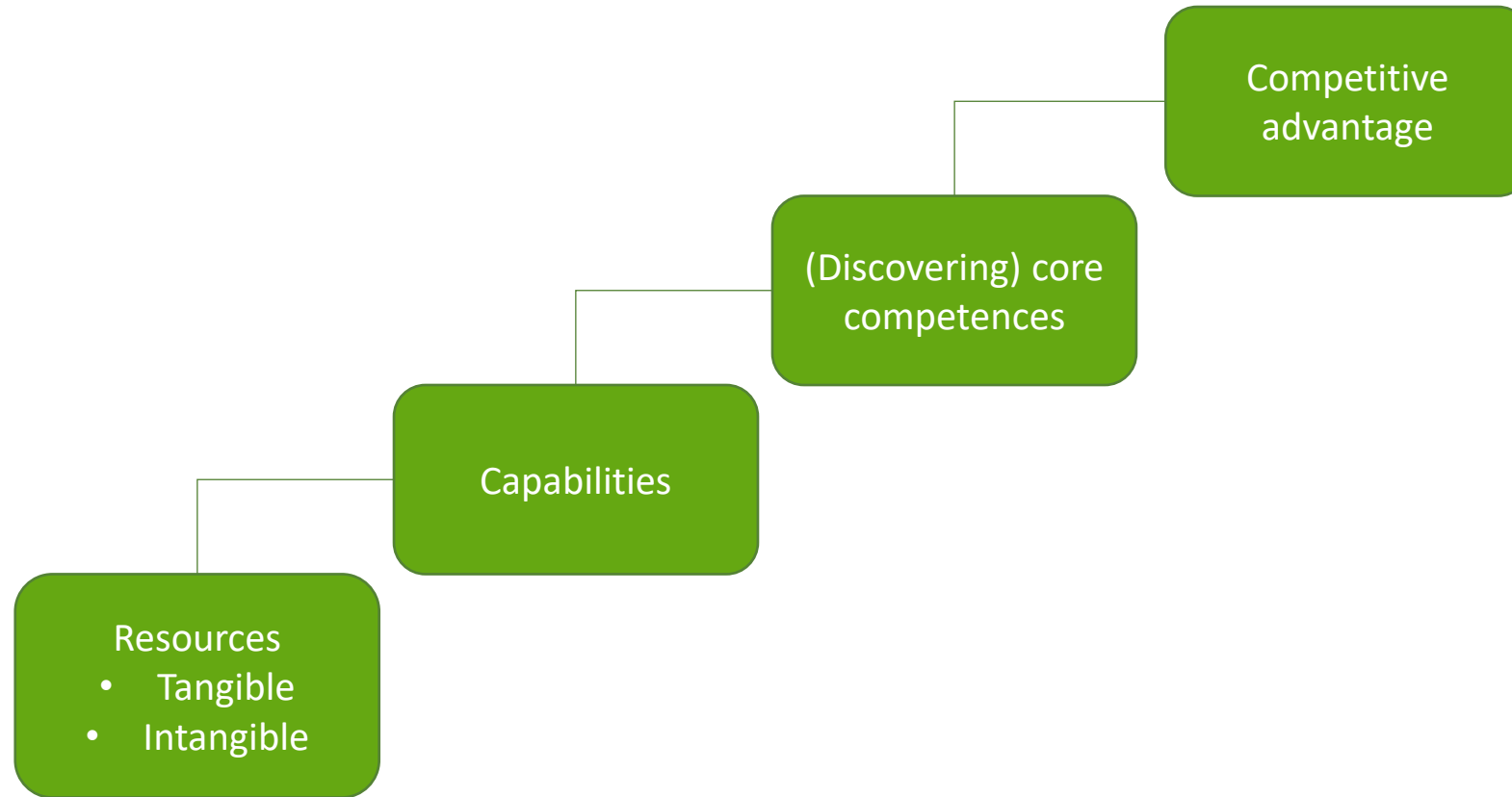


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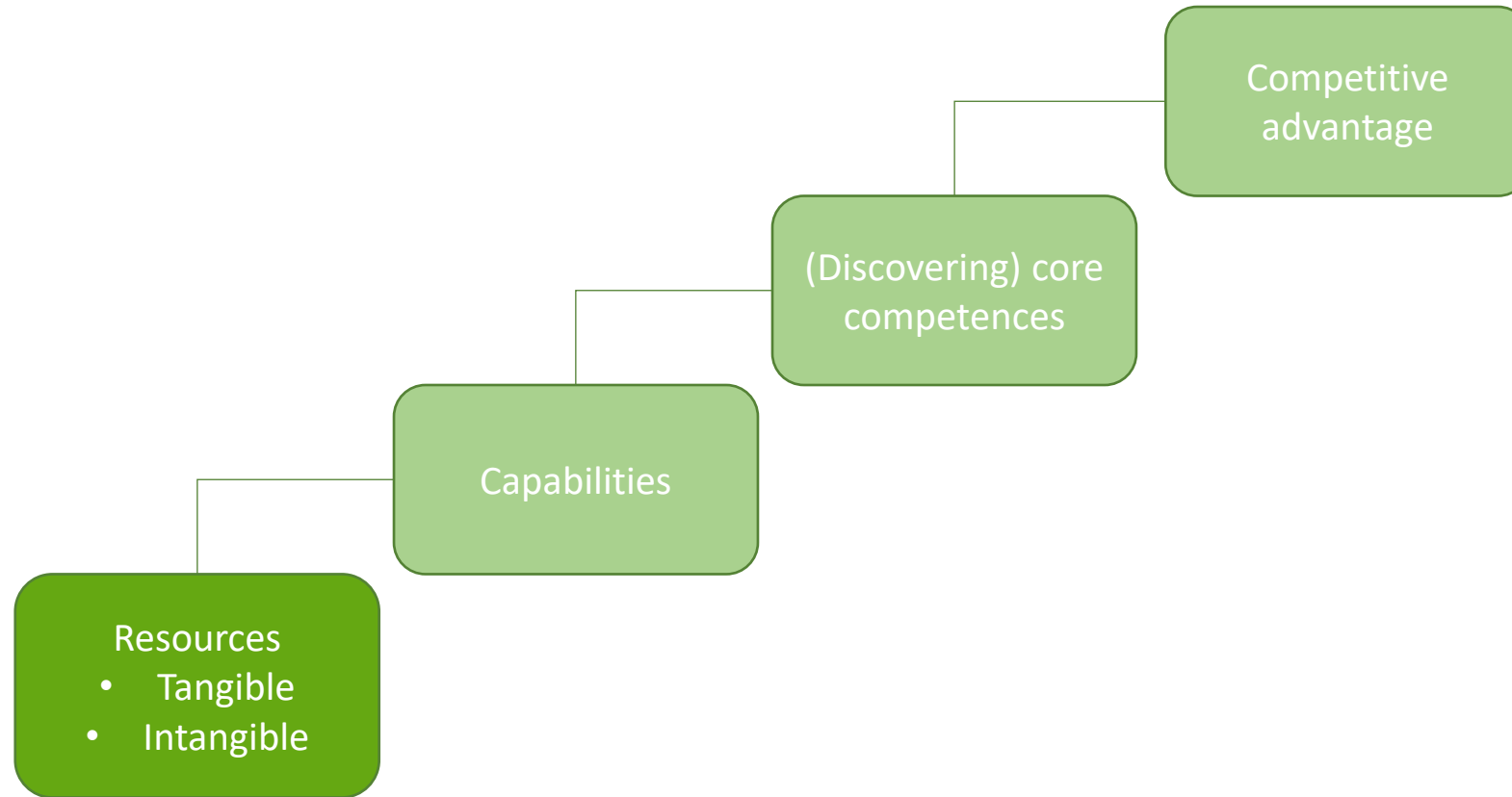
# Theoretical anchors

## A resource typology

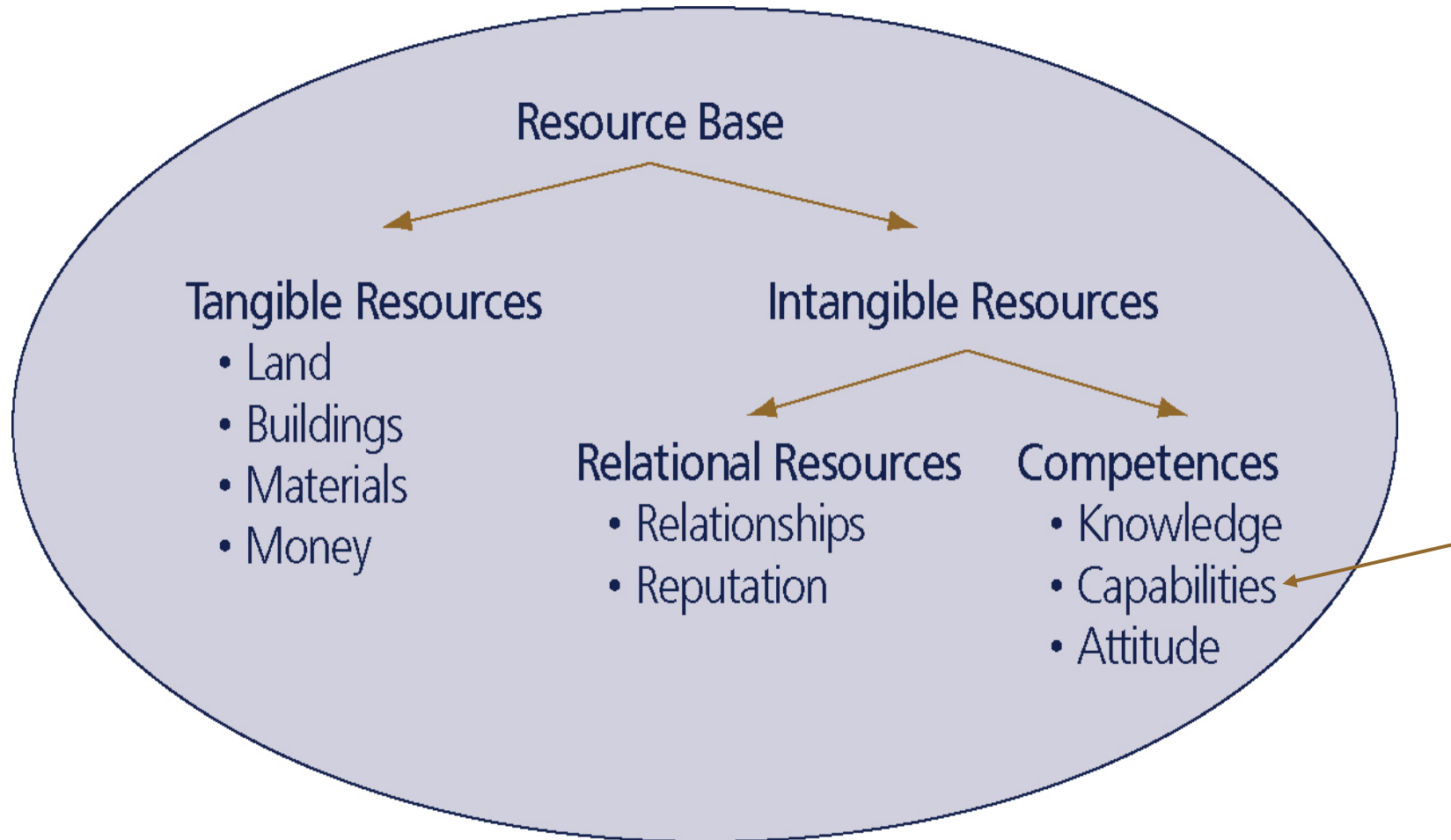
# A research typology



# A research typology



# Resources



# Resources

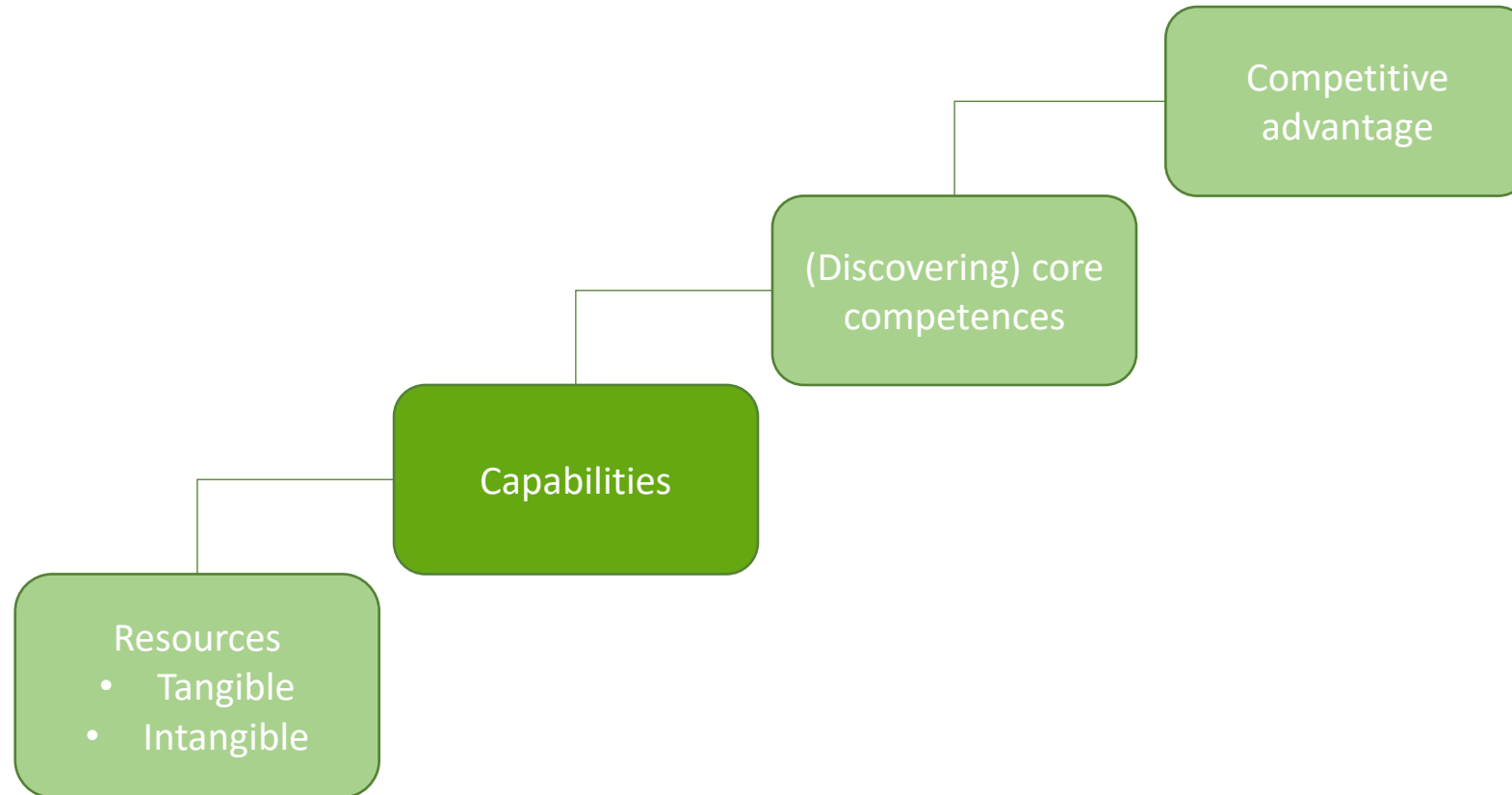
## Tangible resources

- Financial resources
  - Borrowing capacity
  - Cash (from other business units, from profit, ..)
  - ...
- Physical resources
  - Land
  - Equipment
  - Raw materials
  - ...
- Goal: do they provide a potential for creating a competitive advantage?

# Resources

- Intangible resources => most of the time more valuable than tangible resources!
  - Human resources/Culture
    - Knowledge/skills
    - Trust
    - Motivation
    - ...
  - Technology
    - Patents
    - Copyrights
    - Trade secrets
    - ...
  - Reputational resources
    - Reputation with customers and/or suppliers
    - Brand name
    - Perceptions of quality, durability, reliability
  - Remark: capabilities (e.g., capacity to innovate, ...) are also intangible resources, but go “one step further” => see next slides!)

# A research typology





# Capabilities

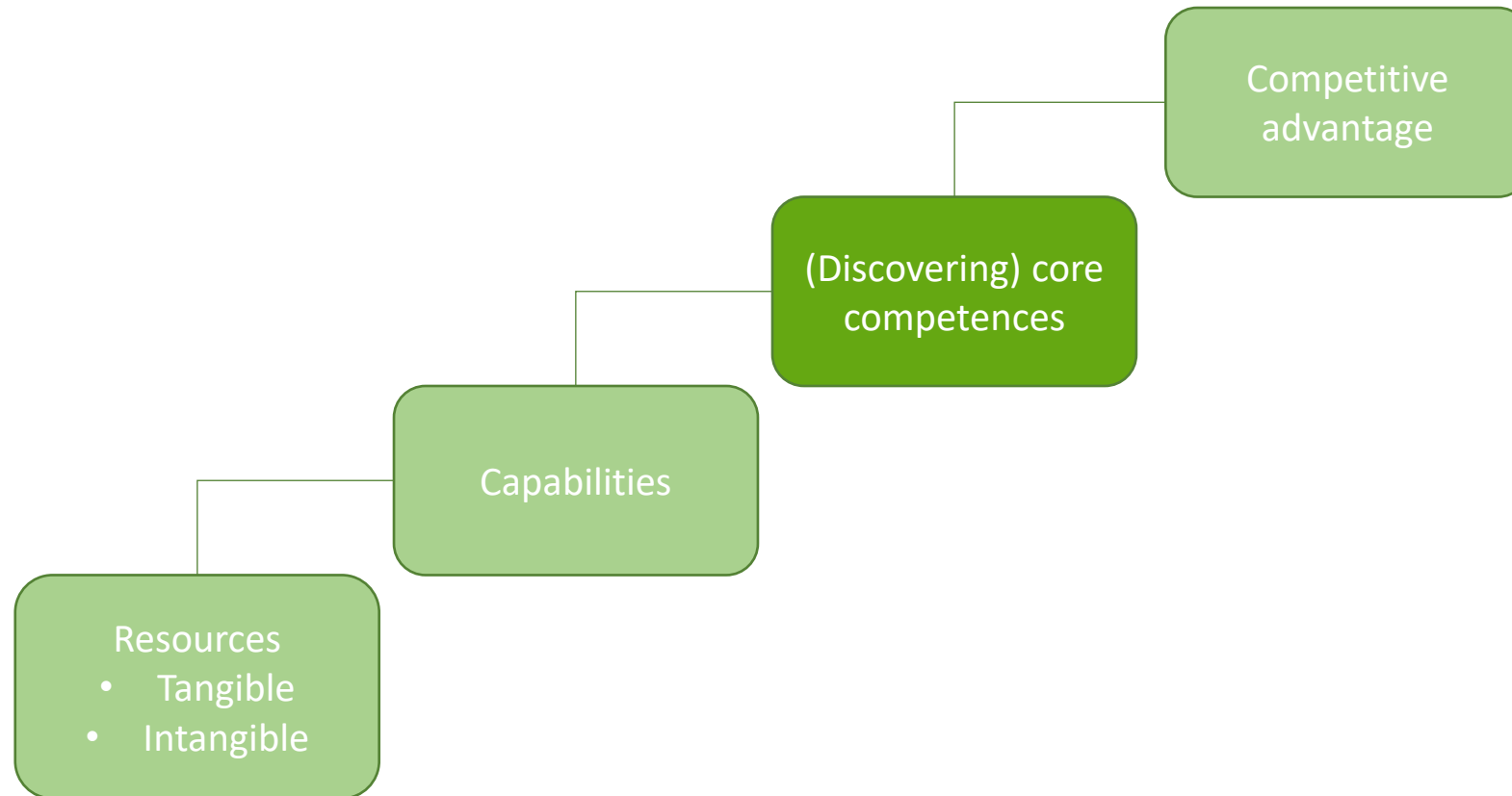
Remark: the terms “capability” and “competence” are used interchangeably in this course

- Difference between resources and capabilities
- When resources have been purposely integrated to achieve a specific task or set of tasks => what the firm can DO
  - A “team of resources” works together

Can lead to competitive advantages => CORE competences/capabilities

Functional area	Capabilities
Distribution	Effective use of logistic management techniques
Human resources	Motivating, empowering, and retaining employees
Marketing	Effective promotion of brand-name products Effective customer services
Manufacturing	Development and production skills that result in reliable products
Research & Development	Innovative technology
Management	Ability to envision the market’s future Ability to adapt to changes

# A research typology



# Discovering the core competences

- Selznick:

“A **distinctive competence** is a competitively valuable activity a company **performs better than its rivals**”

- Prahalad & Hamel:

“A **core** competence is a well-performed internal activity **central** (not peripheral or incidental) to a company’s **competitiveness** (strategy) and **profitability**. Moreover, it **creates (superior) customer value**.”

- Examples: product innovation at 3M. Ben&Jerry’s flavors. Lean manufacturing at Toyota (50% cost reduction)
- Prahalad & Hamel argue: companies tend to focus on products, not on capabilities.
- Individual products may fail; learning from this failure allows the company to build a capability



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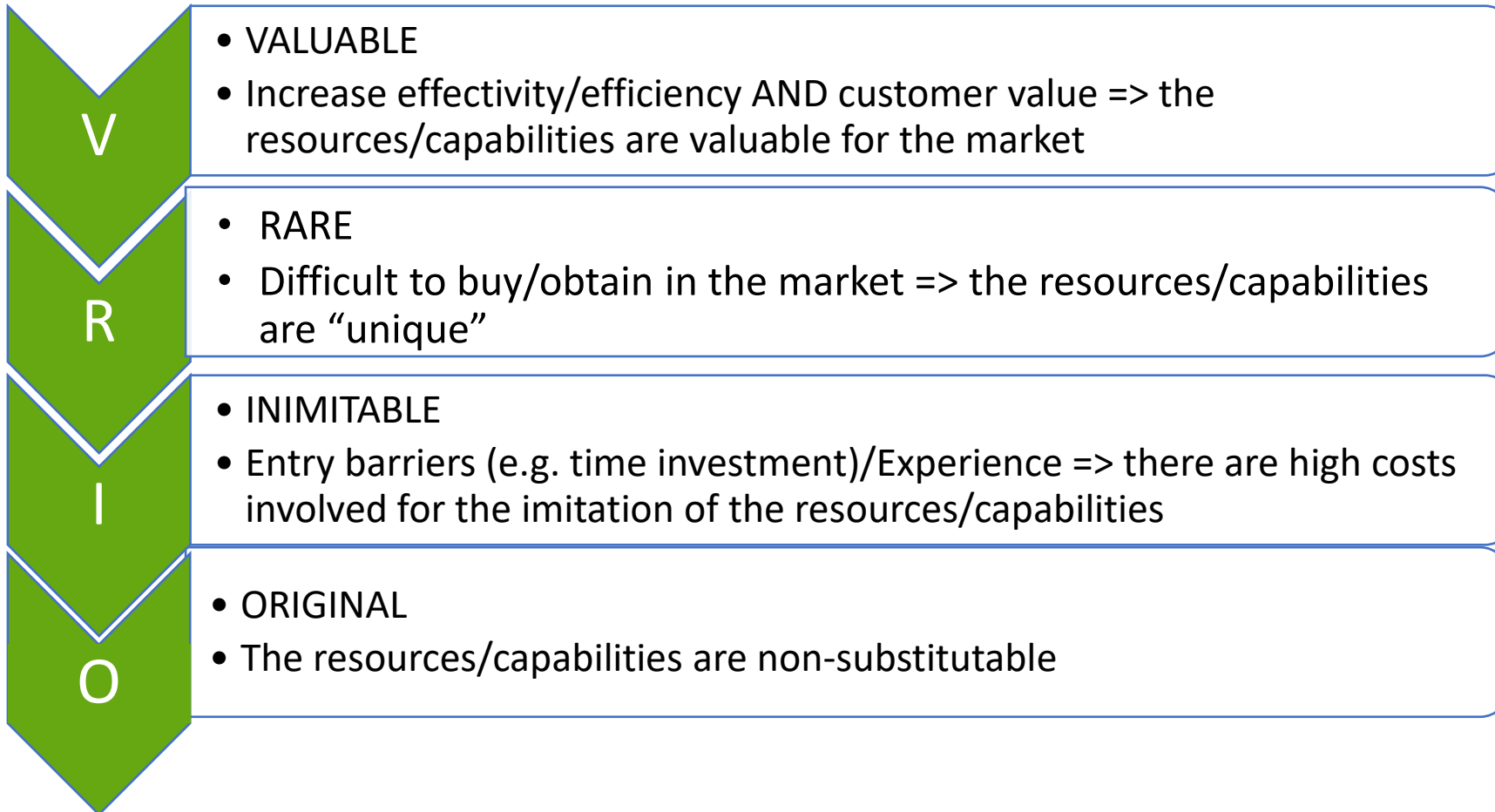
# Theoretical anchors

## The resource-based view of the firm

# A resource-based view of the firm

- A company is a “resource configuration”
- The VRIO tool helps you to define whether the company’s resources can lead to a **sustained** competitive advantage

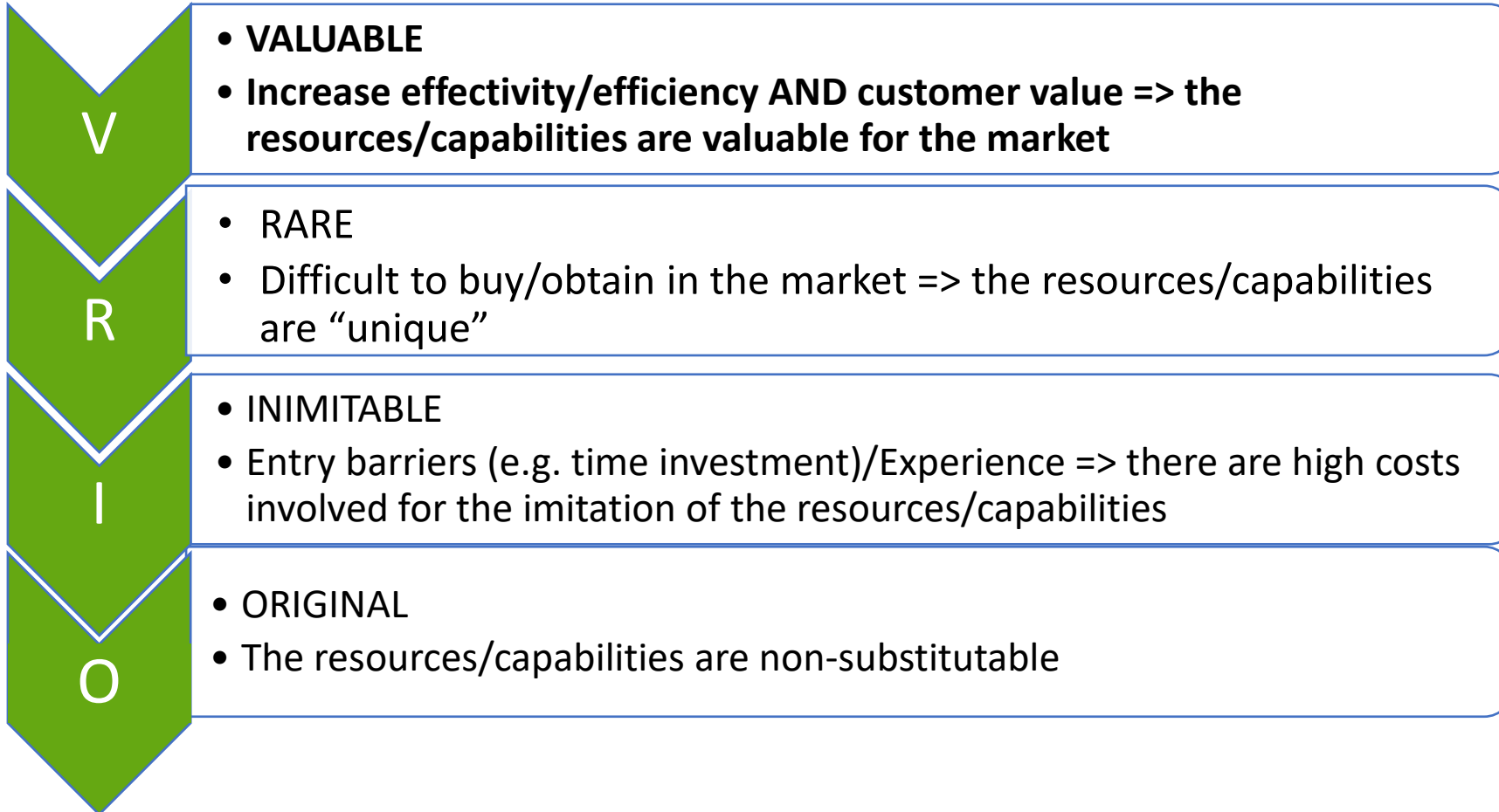
# Resources/capabilities can lead to a sustainable competitive advantage if



## Remarks

- “O” often used as “Organisation”: Is a firm organized to exploit the full competitive potential of its resources and capabilities?
- Other term: “VRIN” (cfr. Non-substitutable)

# Resources/capabilities can lead to a sustainable competitive advantage if



# Valuable means...

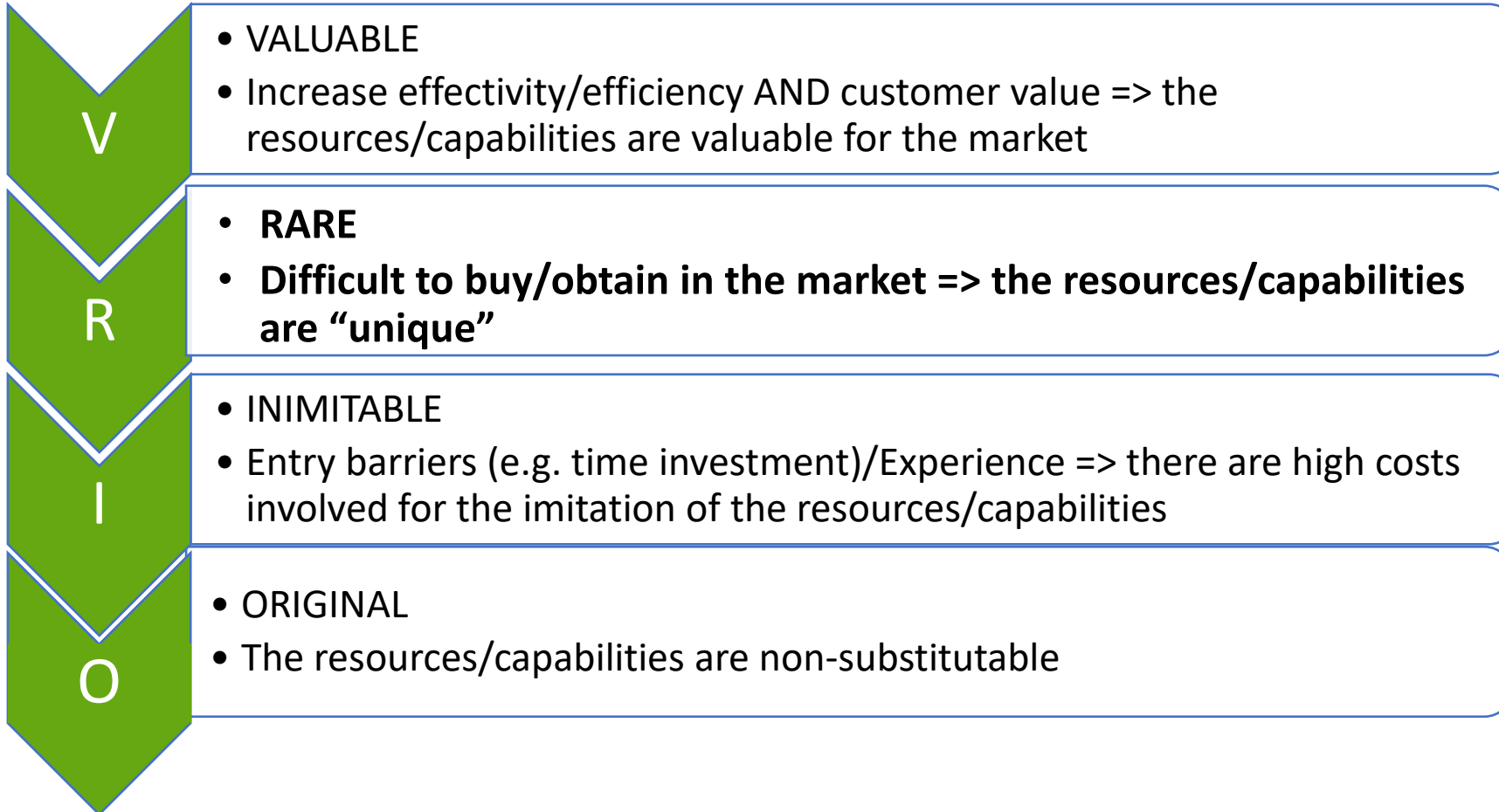
- That the resource (capability) provides potential to **exploit opportunities** in its external environment

Or...

- That the resource (capability) helps the firm to **neutralize threats** in its external environment
- Example GE (General Electric) – GE Money
  - Under CEO Jack Welch, GE built a valuable competence in financial services. Making financial services highly successful required “Putting the right people in the right jobs”. Emphasis on human capital and human resource management!



# Resources/capabilities can lead to a sustainable competitive advantage if



# Rare means...

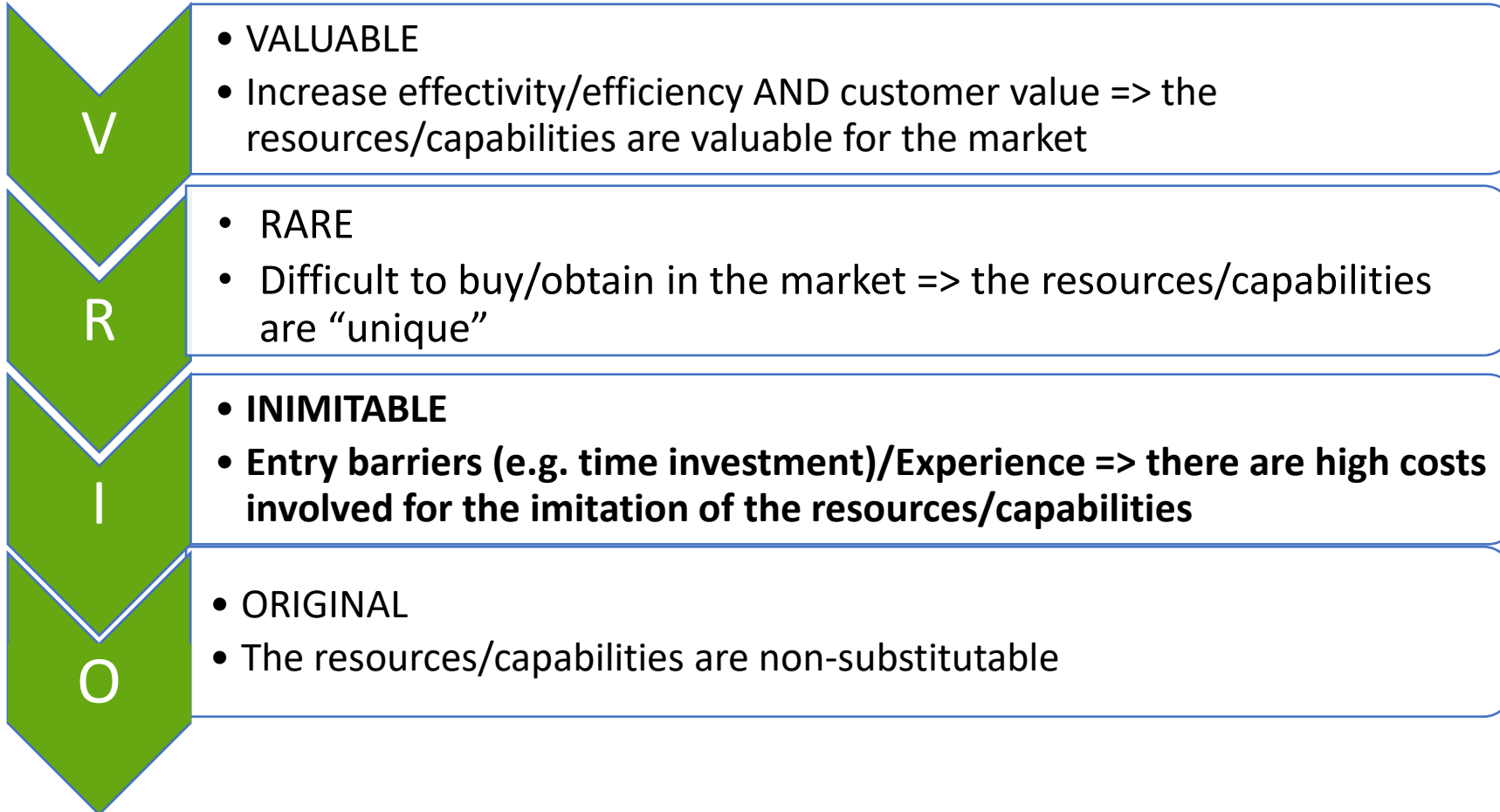
That **few, if any, competitors possess** the resource (capability)

- Key question: how many rivals possess this resource (capability)?

## Example

- Technological knowledge
- Specific distribution channel

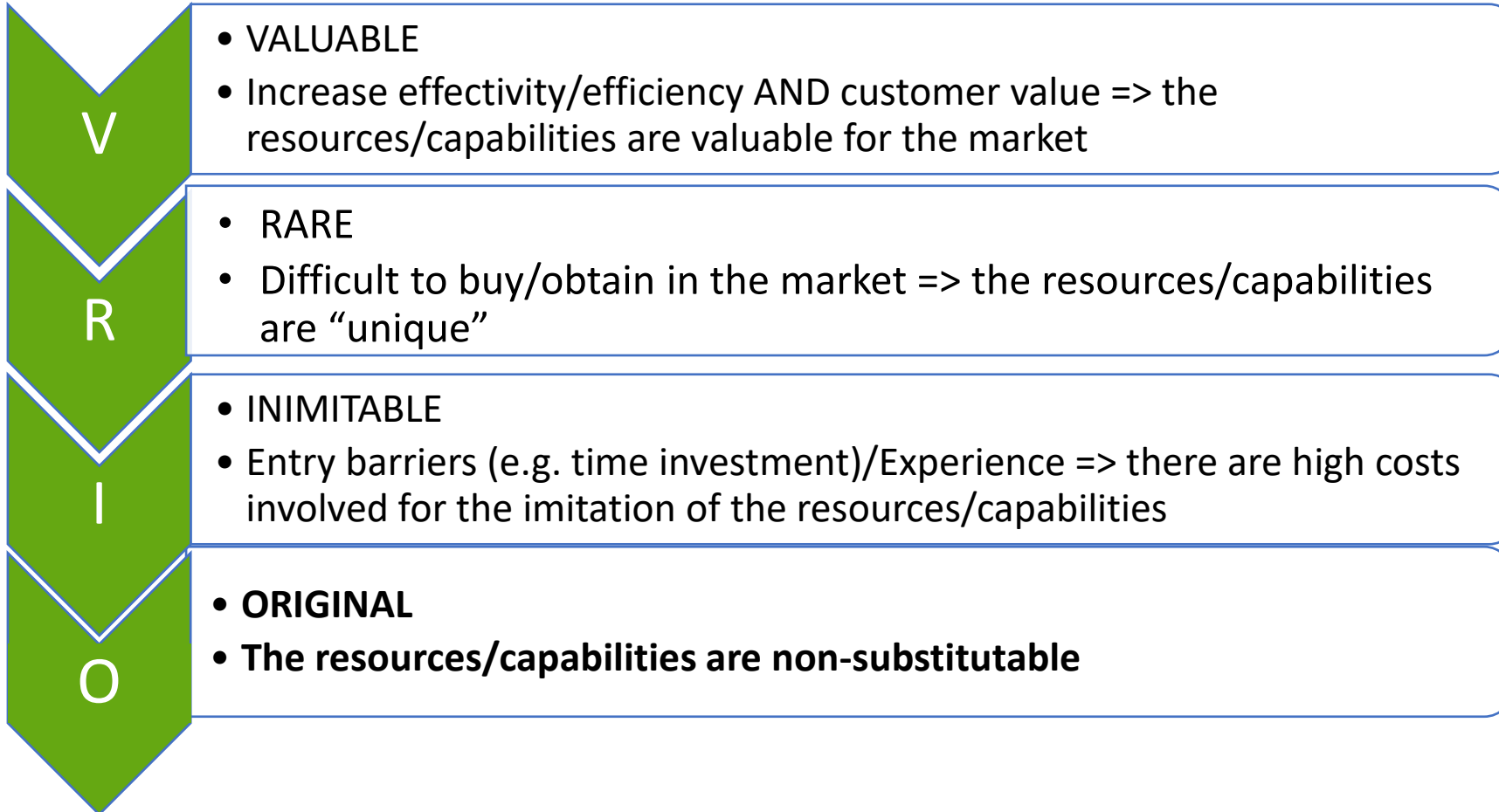
# Resources/capabilities can lead to a sustainable competitive advantage if



# Inimitable means...

- That the resource (capability) is **costly to imitate**.
- That other firms **cannot easily develop** the resource (capability)
- **Why** would the firm be able to develop difficult-to-imitate capabilities?
  - Unique **historical conditions** (firms develop, and while doing so, they acquire resources or capabilities that are unique to them)
    - Example: organizational culture stimulates creativeness
  - It is **unclear** for competitors what the **causal relation** is between the firm's resource/capability and its competitive advantage
    - Example: organizational "low-cost" culture (Southwest Airlines is a low-cost airline company, but less controversial than Ryanair. Was not known for its "trying to offer as few services as possible" mentality)
  - **Social complexity** = the firm's capabilities are the product of complex social phenomena.
    - Example: interpersonal relationships, trust, friendship among managers and between managers and employees, a firm's reputation, ...

# Resources/capabilities can lead to a sustainable competitive advantage if



# Original means...

- That there must be **no strategically equivalent** valuable resource
  - Strategically equivalents = each can be separately exploited to implement the same strategies
  - The capability is difficult to identify and thus difficult to substitute
- Example
  - Trust-based working relationships between managers and non-managerial personnel is difficult to identify, and it is very challenging to find a worthy substitute (e.g., Southwest Airlines)

# “O” also means: “Organisation”

- A firm’s competitive advantage potential depends on the value, rareness, and imitability of its resources and capabilities
- However, **to fully realize this potential**, a firm must also be organized to exploit its resources and capabilities
- **Is the firm organized to exploit the full competitive potential** of its resources and capabilities?
- What? Complementary resources
  - For example: formal reporting structure, compensation policies, ...

# What to do with VRIO resources?

- **Invest** in VRIO resources/capabilities
- **Leverage** the resources in all possible market activities of the company
  - Example: ETAP Electrical Engineering Software
    - Technological knowledge: Electrical power systems
    - Power system analysis used in power generation industry, nuclear facilities, oil & gas companies (to protect electrical systems), transportation engineers, ...



# Break out

- 10' brainstorm, appoint timekeeper
- Select a company
- Search for a resource you would intuitively expect to be a VRIO resources, without going through the VRIO tool to evaluate this
- Go through the VRIO tool. Evaluate whether the resource is indeed a VRIO resource, thus leading to a sustained competitive advantage



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# How to perform an internal analysis?

## The inside-out view

# How to perform an internal analysis?

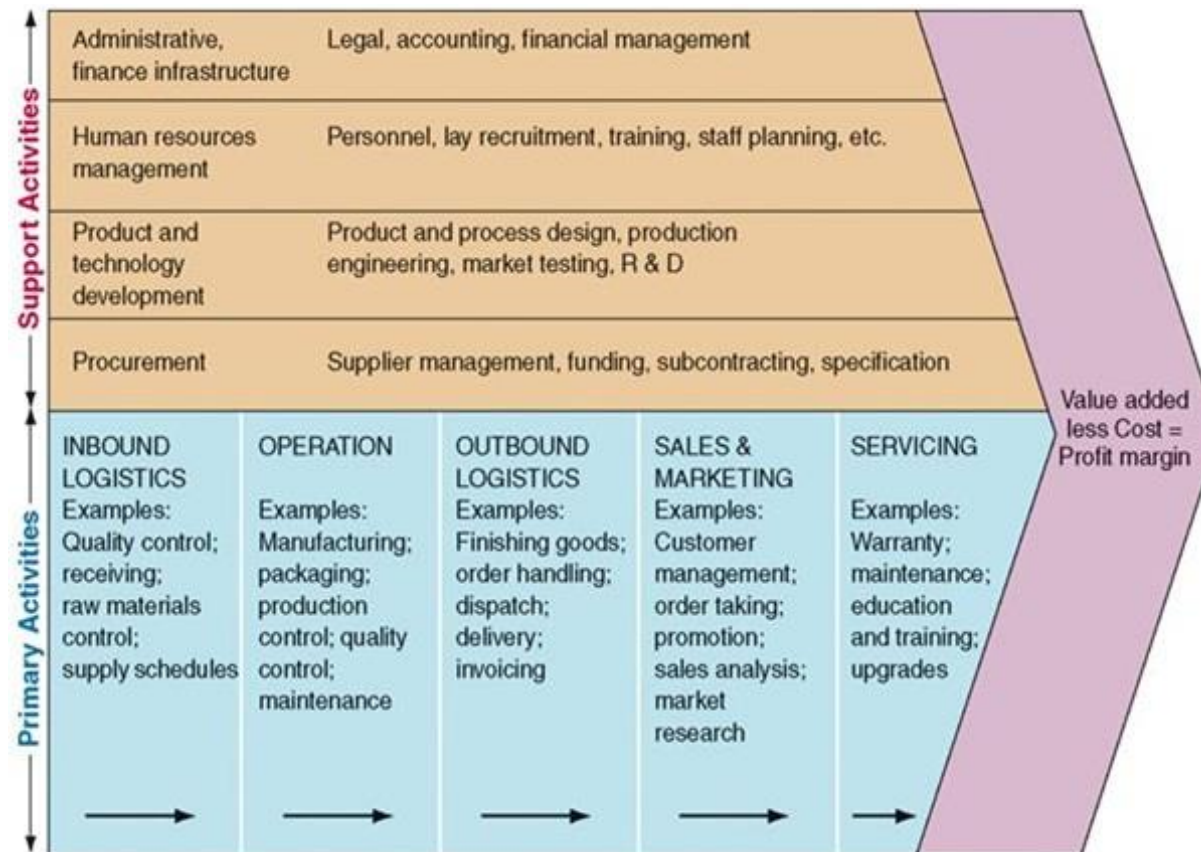
- Step 1 – Identifying the resource configuration
  - Analyzing the *functional activities*, for example through
    - Porter's value chain
  - Analyze *hard/soft elements* in the organization, for example through
    - The 7-S model
  - Defining a *hierarchy of capabilities*
- Step 2 – Defining the external value of the organization's competences => core/distinctive capabilities/competences
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# Step 1 – Identifying the resource configuration

- Analyze the functional activities – Porter's value chain



# Example: a department store

## Primary activities

- Merchandise selection (i.e., 'operations' give input to procurement)
- Store layout and product display
  - Advertising
  - Customer service

## Support activities

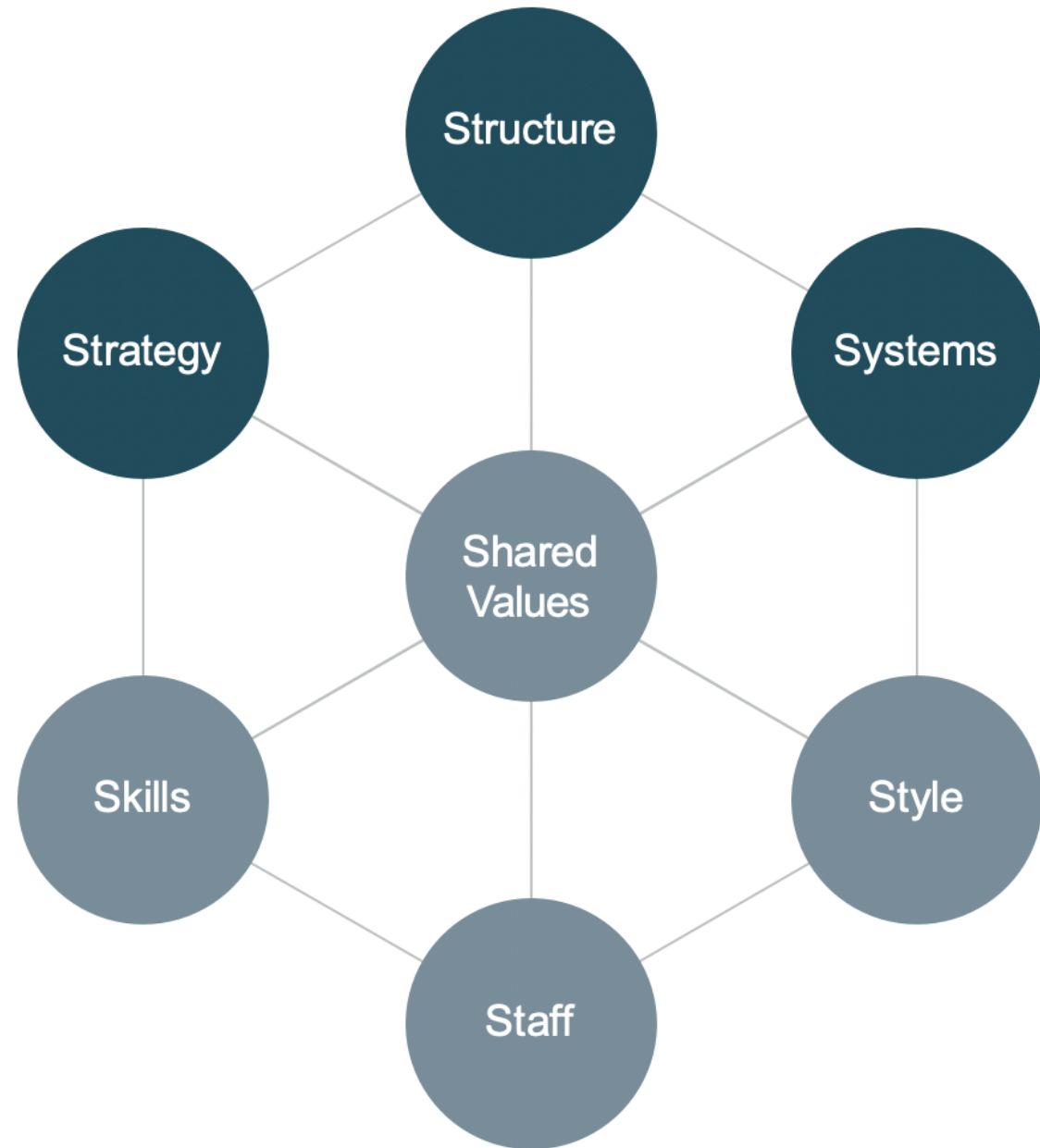
- Site selection
- Hiring and training
- Store maintenance
- Administrative activities

# How to perform an internal analysis?

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Analyze hard/soft  
elements in the  
organization - The 7-S  
model

## Step 1 – Identifying the resource configuration





# The 7-S model

Hard elements	Soft elements
Strategy	Shared values
Structure	Skills
Systems	Style
	Staff

- **Hard elements** = easier to identify or define, and management can directly influence them
- **Soft elements** = more difficult to describe, mostly intangible
- Alignment between ALL elements is pivotal for optimal functioning and success

# The 7-S model

## Hard elements

- Strategy = the ways a competitive advantage will be achieved; which actions the company undertakes to gain a sustained competitive advantage over the competition
  - E.g., opt for a low-cost strategy
- Structure = the way in which tasks and people are divided and specialized, and authority is distributed. The mechanisms by which the activities of the members of the organization are coordinated
  - E.g., divisional structure = diverse functions are grouped into divisions; these can be organized by product, geography, or market segment
    - Downside: often lack of coordination between divisions; might for example address the same customers without knowing it from each other.
    - Advantage: can react quickly and effectively to threats and opportunities related to their focus

# The 7-S model

## Hard elements

- Systems = formal processes and procedures used to manage the organization.  
Important for the company to manage themselves on a daily basis
  - E.g., reward systems, budgeting systems, planning systems, distribution systems, ...

## Soft elements

- Staff(ing) = the people, their backgrounds, and competencies + the organization's approaches to recruitment, selection and socialization
  - E.g., how are recruits trained, socialized and integrated? How are their careers managed?
  - People are an organization's most important asset!

# The 7-S model

## Soft elements

- Skills = the distinctive competencies that reside in the organization. Can be distinctive competencies of people, management practices, systems and/or technology
  - See resource typology → core competences that lead to a (sustained) competitive advantage!
  - Important: these capabilities/competencies are possessed by the organization, not by an individual! (often developed over the course of years!)

# The 7-S model

## Soft elements

- Style = the leadership style of top management, and the overall operating style of the organization.
  - This will impact how people work and interact with each other and with customers
  - It captures how work actually gets done!
  - E.g., where do managers focus their attention on? Inside/outside? Small symbolic acts such as job titles
  - E.g., how participative is the management/leadership style? Do employees tend to be competitive or cooperative?

# The 7-S model

## Soft elements

- Shared values = the core of fundamental set of values that are widely shared in the organization and serve as guiding principles of what is important
  - What are the organization's core values? What is the corporate/team culture?

# How to perform an internal analysis?

- Step 1 – Identifying the resource configuration
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# Step 1 – Identifying the resource configuration

- Defining a hierarchy of capabilities
  - When using Porter's value chain or the 7-S model to define capabilities, they are often broadly defined
    - E.g., marketing capability, HRM capability
  - Capabilities are the outcome of...
    - Organizational routines! Developed through "learning by doing"
  - As a result: these broad capabilities can be broken down into more specialist capabilities  
= Hierarchical analysis
    - Hierarchical "lower" competences are integrated, and can thus form a new competence
    - To execute an activity, various competences are necessary!



# How to perform an internal analysis?

- Step 1 – Identifying the resource configuration
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## Step 2 – Defining the external value of the organization's competences

- Market filter!! – through **VRIO analysis** (see earlier)
  - Through buyers/clients
    - Competences/capabilities assure quality, sustainability, cost reduction, .... for buyers/clients
  - Competitors
    - Do not have these VRIO resources

# How to perform an internal analysis?

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# Step 3 – Assuring potential profit, cfr. value capturing

- All competitive advantages will fade in time!
  - Changes in customer needs
  - Changes in technology
  - Copycats
  - Changes in labor markets (HR)
  - Changes in legislation
  - ...
- **Who gains the returns generated by superior resources & capabilities?**
  - Owner of the resource/capability
- BUT
  - **Ownership is not always clear-cut!**
    - Employees provide skills; is the organization the owner, or the employee?
    - Organizational culture; thanks to creative/innovative employees!



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# Case: Cirque du Soleil

## Can it burn brighter?

# Break out

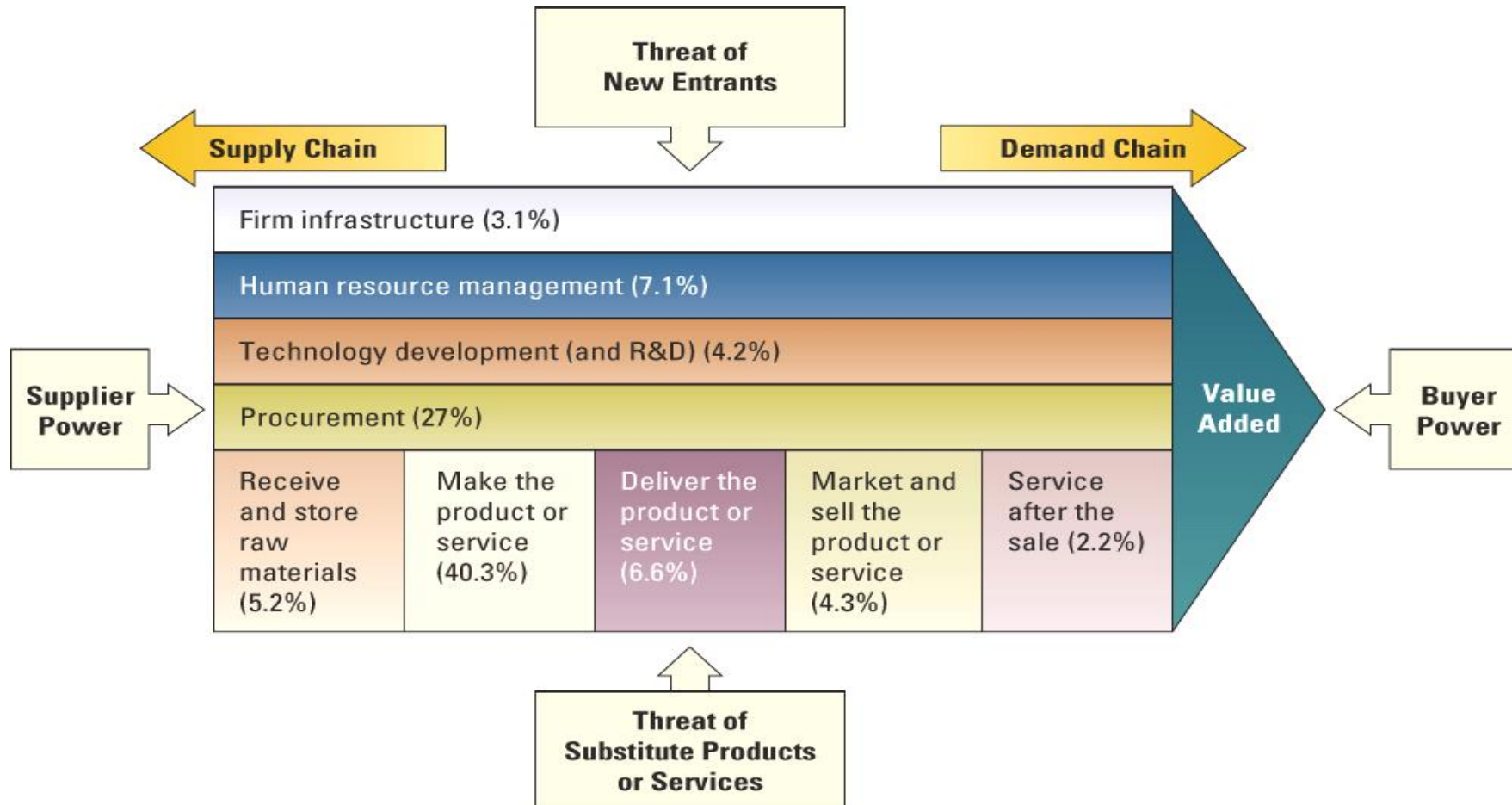
- 30' brainstorm
- 1. What are the Cirque's resources and capabilities that have allowed it to be so successful? What is its core competence? (think about the resource typology seen in class!)
- 2. How imitable is its core competence? What threat do competitors pose? Which type of competitor poses a bigger threat, the small upstarts or larger entertainment firms?
- 3. What other challenges does Cirque face, besides this new competition?
- 4. Evaluate Cirque's two diversification plans: mega-entertainment complexes and a television series? What is your idea? Is this feasible? Which resources would Cirque need? How to evaluate?

# Questions

What are the Cirque's core resources and capabilities that have allowed it to be so successful? What is its core competence?

# Core resources and capabilities

Valuable, rare, hard to imitate advantages at almost every stage of the value chain!





# Core resources and capabilities

Most salient elements:

- Tangible resources:
  - 75000 square meter HQ on subsidized land
  - Sophisticated training rooms
  - Costume makers (“hard-to-find”, see intangible resources)
  - Facilities for costume makers
  - Chorographers and composers (“hard-to-find”, see intangible resources)
  - Established base of professionals (“hard-to-find”, see intangible resources)
  - Permanent locations in prime tourist areas (Las Vegas/Disney World Florida)

# Core resources and capabilities

- Intangible resources:
  - Brand recognition (word of mouth and “buzz” has meant that very little marketing expenditure is necessary)
  - A corporate culture complete with “rags to riches” legend that places artistic merit above profit
  - World-wide reputation that means top talent comes to them
  - Private ownership that allows it to avoid market pressures for growth not consistent with its culture
  - Specialized, well-trained and experienced talent (e.g., choreographers, composers, costume makers, athletes, .... See previous slide )
  - Costume making is not only specialized, but also of high quality, short delivery time, ...

# Core resources and capabilities

- Capabilities:
  - Ability to combine talented performers, musicians, and costumes into novel shows
  - Ability to take athletes and turn them into stage performers
  - Ability in setting up and moving traveling shows around the world
  - HRM (manage diversity; different countries, languages, ...)
- Core-Competences: integration of all to above
  - To transport audience members to a parallel universe, to reach them at a very emotional level that makes them forget about where they are from, about their political differences, about their differences in color and allows them to enjoy the moment and want to experience it again and again

# Questions

How imitable is its core competence? What threat do competitors pose?  
Which type of competitor poses a bigger threat, the small upstarts or larger entertainment firms?

# Imitation and Competitive Threat

- Small upstarts
- Circus giant Ringling Brothers
- Small upstarts
  - Innovative, cutting-edge nature of Circus shows can be replicated
  - BUT: will have a very hard time matching the established base of permanent shows, the brand recognition, the financial means to develop large touring shows, and the specialized training facilities

# Imitation and Competitive Threat

- Ringling Brothers

- Can replicate the scale of training facilities and skills in mounting traveling shows, but cannot duplicate the innovative corporate culture or the “buzz” of the Cirque
- Has competences in animal-based shows, not in complex combinations of dance, music, and costumes featured in Cirque shows

# Imitation and Competitive Threat

- What about Walt Disney Company?
  - Worldwide scale, physical facilities, financial means
  - Creative knowhow and brand recognition
  - ??

# Questions

What other challenges does Cirque face, besides this new competition?



# Other Challenges

- Market saturation ! → profit squeeze likely?
  - Tours touring and permanently installed, has a saturation point been reached?
  - (remark: in 2012, Cirque shuttered 4 shows, among them Las Vegas “Viva Elvis” because of poor ticket sales. Revenues have dropped about 10%, compared to 2011)
- Recent departure of two of the three founding members (Daniel Gauthier, the “numbers man”, and Gilles saint-Croix, one of the creative brains)  
→ what if Guy Laliberté leaves?

# Other Challenges

- IPO (Initial Public Offering)?? What do you think?
  - Private firm → maintain creative authority, not pushed into doing things purely for commercial reasons
  - Would going public harm the organization?
  - What about selling less than 50% of the firm to raise capital?

# Questions

Evaluate Cirque's two diversification plans: mega-entertainment complexes and a television series?

# Diversification

## MEGA-ENTERTAINMENT COMPLEXES

- What is your idea? Is this feasible? How to evaluate?
- What are the direct resources you need:
  - the shops and the studio for creating costumes and training personnel
  - Skilled performers, choreographers and costume designers
  - brand recognition
  - Installed base of fans
  - International HRM skills
  - A repertoire of concepts, characters and stunts that can be transferred from shows to the complex
- BUT there is a lot missing:
  - how to run hotels, spas, shops, ... → via JV/alliances (but what about culture, decision making, trade-offs money – ideas)
  - → core-competence is not easily transportable to other venues (“parallel universe”)

# Diversification

## TELEVISION SERIES

- Less risky
- Complementary to the shows (share of customer, customers are likely to consume more of Cirque du Soleil)
- But also, some resources are missing → plot in the 13 series (not present in the stand-alone shows)
- How to convey the Cirque du Soleil live-atmosphere into television (again JV necessary???)

# Next weeks...

- 31/10 – no class, use the time to work on your group project
- 07/11 – no class, use the time to work on your group project
- 12/11 (8 am) – via BB – submission of phase 1 group project
- 14/11
  - Feedback phase 1 (external analysis) – see BB for feedback schedule.
  - Attention! This is a large group of students; please make sure to be present on time so that we do not lose time during the feedback session.
- 21/11
  - Growth and portfolio strategy
  - Sustainability (and social entrepreneurship)
    - Please read the LCDB case in advance.