

Assess Internal Firm Environment

“**Resources** are the productive assets owned by the firm; **Capabilities** are what the firm can do. On their own, individual resources do not confer competitive advantage; they must work together to create organizational capability. Organizational capability, when applied through an appropriate strategy, provides the foundation for competitive advantage” (Grant, 2016, pg. 118). An organizational capability is a “firm’s capacity to deploy resources for a desired end result.

There are three main types of resources: tangible, intangible, and human (see Figure 5.4 on page 119).

- What are the tangible resources (e.g., financial, physical) for your company?
 - FYI. The primary goal of resource analysis is not to value a company’s tangible resources but to understand their potential for generating profit
- What are the intangible resources (e.g., technology, reputation, culture) for your company?
 - FYI. More valuable than tangible resources.
 - Tend to be either undervalued or omitted altogether on balance sheet.
- What are the human resources (e.g., skills/know-how, capacity for communication and collaboration, motivation) for your company?
- What is your company’s core competencies (i.e., those capabilities fundamental to a firm’s strategy and performance that organizational capabilities became a central concept in strategy analysis)?
- How big is the firm in terms of revenue and profit?
- How does your company compare financially to its competitors?
 - Forward looking performance measures (i.e., market capitalization, enterprise value; return to shareholders)
 - Backward looking performance (accounting ratio, i.e., operating margin, ROE, ROCE, ROA)

Most important ✖

“Strategically important resources and capabilities are those with the potential to generate substantial streams of profit for the firm that owns them. This depends on three factors: their potential to *establish a competitive advantage*, to *sustain that competitive advantage*, and to *appropriate the returns from the competitive advantage*” (Grant, pg. 126).

- To establish a competitive advantage, two conditions must be present Pinsh Mark
 - Is the resource or capability relevant?
 - Is the resource or capability scarce?
- To sustain that competitive advantage, three characteristics of resources and capabilities determine the sustainability of the competitive advantage
 - Is the resource or capability durable?
 - Is the resource or capability transferable?
 - Is the resource or capability replicable?
- To appropriate the returns from the competitive advantage
 - Who gains the returns generated by superior resources and capabilities (i.e., employees or the firm/organization)?
- How strategically important are the different resources and capabilities of the firm?

- How strong are the firm's resources and capabilities relative to those of its competitors (FYI. You should benchmark and, when possible, get groups of managers together to identify things that the company has done well in recent years)