

THE NEW ROUTE TO COMPETITIVE ADVANTAGE

ORGANIZATIONAL CAPABILITY

Ed Konczal Research Example

This analysis of people as the route to competitive advantage started in 1996. This concept has now become mainstream as noted by the following references:

“It is clear that most organizations are paying a lot of attention to their customer capital. However, the growing recognition of the importance of human capital for organizations can be seen in the second most frequently cited basis for future success.”

Competencies and the Competitive Edge

Watson Wyatt

“Human capital--the collected skills, talents, and knowledge of workers--has increased in importance in recent years, and companies now find their success and even survival tied more and more closely to the human capital of their workers. ”

American Society for Training & Development

What is the best way to get out in front of your competition?

- high tech development
- access to financial assets
- R & D
- industry boundaries

These approaches may have worked in the past – but they are becoming increasingly ineffective as technologies merge, regulations are relaxed and companies form powerful strategic alliances. Savvy, fast-growing companies understand this; that's why they are developing new ways to achieve competitive advantage through their own people and organizational capabilities.

To win in the new business world a firm must create value in ways that:

- differ from competitors' approaches
- cannot be easily copied

The reality is your competitors can obtain capital and technology -- and they can match even your most creative pricing strategies. However, it's more difficult to recreate your culture, value system, operating principles, leadership style and management philosophy -- bottom line, the culture that is the foundation of your organizational capability.

Here's how Webster's would define it. Essentially, organizational capability is a company's ability to anticipate and adapt to changing customer needs and marketplace forces, made possible through its people, culture, internal structures, policies, and practices. Now for the analogy. If the flowers, leaves and fruit of a tree are the value it delivers, the roots represent organizational capability. Just as roots are usually hidden below the surface, so is organizational capability. That's why once organizational capability is developed and contributes to a company's success, it cannot be easily copied; it becomes a firm's premier competitive advantage.

Here is the essence of organizational capability:

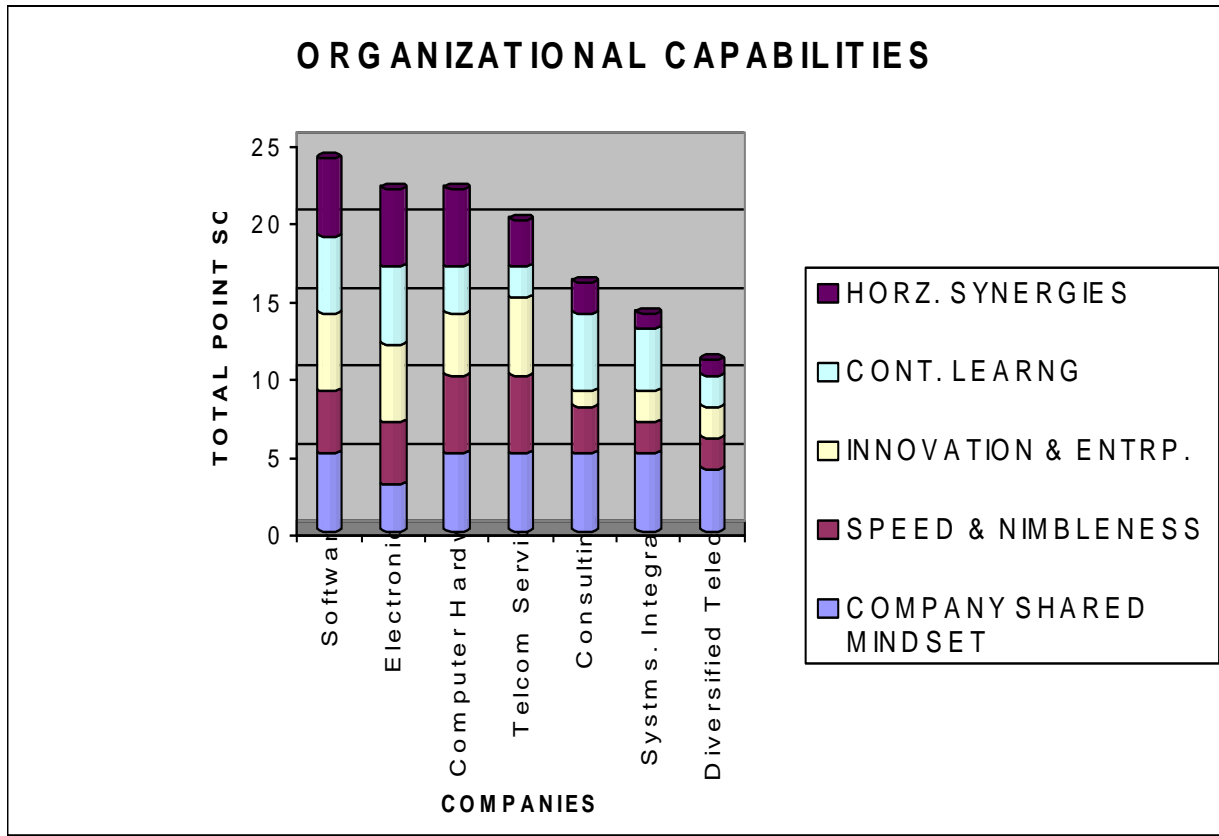
- Speed and Nimbleness – the ability to adapt quickly to changing market conditions and customer needs
- Shared Mindset - the ability to build a common vision, direction and behavior based on shared values and principles (this is like saying "we do things this way in our company" and everybody gets it)

- Innovation and Entrepreneurship – encouraging creativity and helping others to translate ideas into action to generate growth and develop an advantage in new and existing markets.
- Continuous Learning – creating an atmosphere that supports lifelong learning: developing the ability of people, as individuals and as an organization, to produce results.
- Horizontal Synergies and Partnerships – building trusting, long lasting relationships with customers through shared agendas; focusing on teamwork that transcends boundaries between organizational units, managerial levels, external partner companies.

A study was conducted to further investigate the business implications of developing a superior organizational capability. The study confirms that companies with cultures comprised of these specific organizational capabilities have indeed achieved competitive advantage. Seven companies were included in the study and were scored against their competitors:

Company vs. Competitors	Score
Strong Advantage	5
Advantage	4
Same	3
Weaker	2
Much Weaker	1

The results of the analysis look like this:



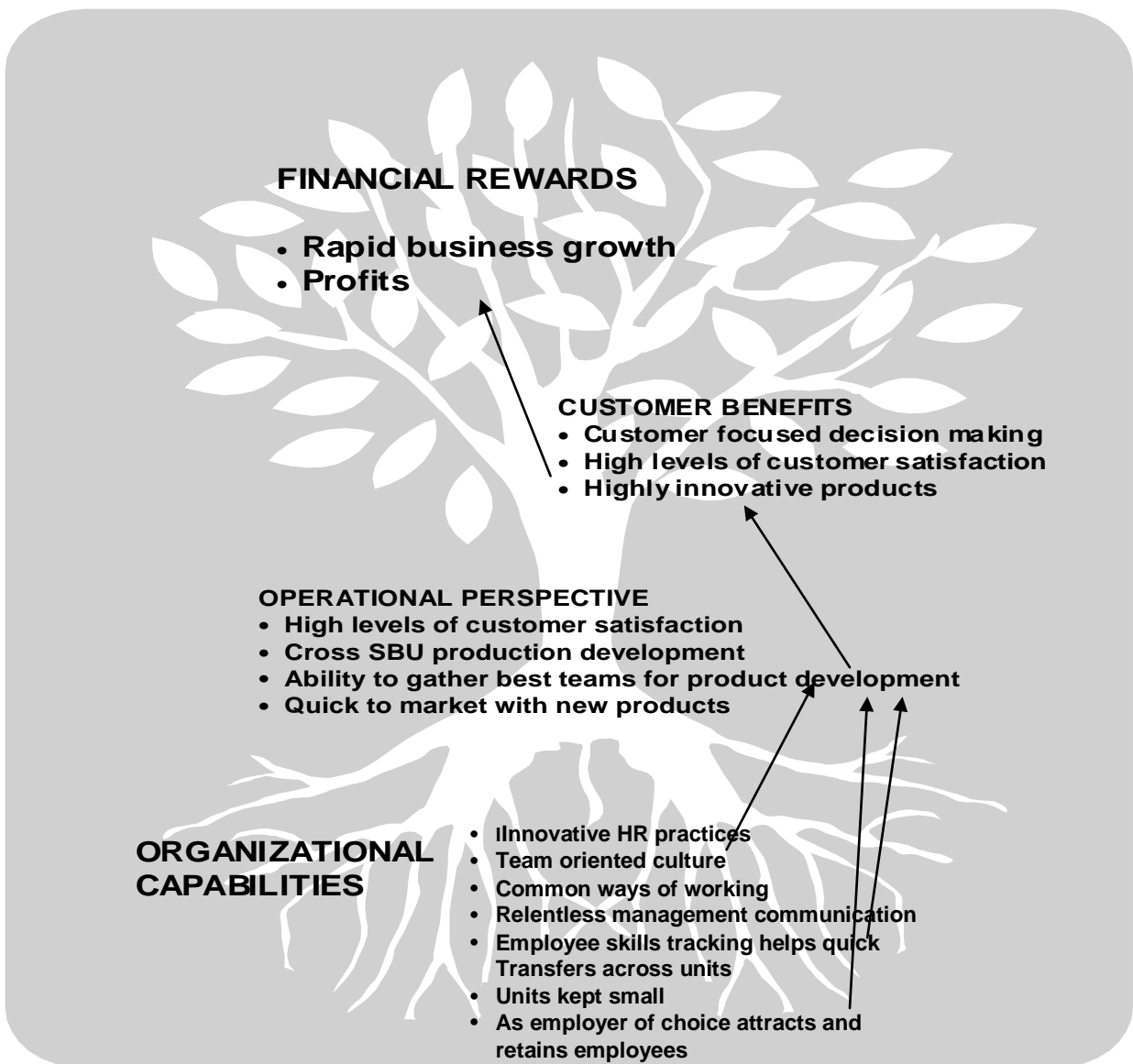
Next the scores by component for each company were averaged and compared to compound annual growth of sales over four years:

COMPANY	ORGANIZATIONAL CAPABILITY SCORE	SALES (CAGR*)
Software	4.75	40.8
Electronics	4.25	19.6
Computer Hardware	4.25	17.2
Telecom. Services	3.75	14.8
Consulting	2.75	16.4
Systems Integration	2.25	13.3
Diversified Telecom.	2.2	4.4

* Compound Annual Growth Rate

The key finding; there is a strong relationship between a company's organizational capability and its ability to grow the business. When you think about it, this makes sense – it is the intellectual capital, what is in the minds and hearts of people – rather than the buildings, the tools, the financial capital -- that has the power to truly differentiate and grow a business – and beat the competition.

Back to the tree analogy. A closer look at the computer hardware company shows: a team oriented culture, the ability to hire and keep skilled people and when these are combined with the ability to track skills the result is effective product development teams. These teams produce innovative products, which eventually yield financial success. Organizational capabilities flow up the "tree" and though difficult to observe, they produce very visible results. There are other indicators that point to the power of organizational capabilities.



Fortune magazine's rating of The Most Admired companies also shows a strong relationship between financial performance and another dimension of organizational capability (The ability to attract and retain talented people)

<http://www.pathfinder.com/fortune/mostadmired/index.html>

In the November 1998 issue of Fast Company former Labor Secretary Robert Reich references the importance of people "Looking across the landscape of the New Knowledge Economy, he finds a fundamental shift in what a company must do to capture the future: It must attract the best people, and it must create a "social glue" that holds those people together within a workplace where the whole is greater than the sum of the parts. To do so, companies need to focus on six key elements: money, mission, learning, fun, pride and balance."

Smaller companies are also starting to realize the importance of how well they organize and treat their human assets. Just look at recent IPOs. Knight/Trimark Group an innovative NASDAQ market maker, which went public in June 1998, mentioned "*The success of the Company also depends, in significant part, on the highly skilled, and often specialized, individuals it employs. The Company's ability to attract and retain management, sales, trading and technical professionals is particularly important to its business strategy.*"

It also has some innovative practices, "*Knight has its own in-house training program for trading staff, Knight School, which provides ongoing training and skill-development to Knight's sales and trading personnel. The Company intends to expand this initiative and to develop additional programs to improve the skills and productivity of its workforce.*"

It is this corporate mindset combined with execution of practices such as those of Knight/Trimark that produces a sustainable competitive edge. For Knight this is crucial since it lives in an extremely competitive market that includes small day traders and the Wall Street giants.

You might want to do your own analysis; rate your company on each component of organizational capability and compare your score with your analysis of competitors' organizational capabilities. Then look at how your company has grown versus competitive businesses. How do you size up?

What can your company do to become an *Employer-of-Choice* – to attract and retain people that will help develop advantages over the competition?

- Have you considered offering innovative benefits, such as Career Development and Personal Growth Support for your people? Forward thinking, fast growing companies are already offering these benefits.

- Do you offer comprehensive training resources to develop the skills of your people?
- Do you offer programs to help your people manage their personal lives?
- Have you considered doing fun things that build camaraderie and company loyalty?
- Is communication continuous and relentless?

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