Chapter 18
Resources, Capabilities, and Business Success

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ABSTRACT

Resources and capabilities that align with the demands of the environment in which an organization operates conduce to successful performance. Physical, human, and organizational capital resources that are valuable, rare, inimitable, and organizable can provide the firm with unique capabilities that lead to competitive advantage and value creation. Seven generic strategic capabilities are related to organizational success. These are service quality; visionary leadership; innovation and creativity; selection and retention of good staff with good technical skills; credibility, integrity, and honesty; excellent differentiated products or services; and adaptability and flexibility. Dynamic capabilities are defined generally as the ability of the firm to reconfigure its resources in changing times and thus allow the organization to adapt and evolve. Specific dynamic capabilities include team and product development processes; customer retention; leadership; organizational culture; redeployment of assets; strategic thinking; and knowledge management. Hard and soft business success measures are profitability, growth, improved teamwork, customer and employee satisfaction, and quality. There is very little literature reporting empirical testing of the relationship between resources, capabilities, and success. Thus the authors discuss the findings of the few studies that have done so, and they deduce from them that the relationship between capabilities and success is a complex one. This is because a common thread across all the studies is that many capabilities are linked to many success measures in a complicated matrix of statistically significant relationships. This suggests that in order for organizations to score highly on both financial and non-financial success measures, they need to deploy the many capabilities discussed in this chapter.

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INTRODUCTION

This chapter identifies and discusses the strategic and dynamic capabilities that help facilitate successful business performance. Indeed, in the world of business, 'the fundamental question in the field of strategic management is how firms achieve and sustain competitive advantage' (Teece, et al., 1997). Hanson, et al., (2008) define strategy as 'an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage.' A strategy is expected to have a long term effect on an organization's future (Hubbard, et al., 2007; Wells, 1998). At its core, strategy is about positioning for a competitive edge and aligning the organization with its environment (Hanson, et al., 2008; Wells, 1998). It is argued that there are 'performance implications for an organization that is well adapted to its environment' (Wang & Horsburgh, 2007).

The guiding theoretical framework for this chapter is derived from the major strategy and capability theorists (Hubbard, et al., 1996; Porter, 1998; Eisenhardt & Martin, 2000). The foundation model is the Environment-Strategy Gap framework developed by Hubbard et al. (1996). This model advocates an understanding of the market environment (through an external analysis of the internal environment) and an organization's strategic and dynamic capabilities. This enables the firm to respond in such a way that bridges the difference between its actual and desired performance (Hubbard, et al., 1996). This framework is illustrated in Figure 1.

This process is akin to a SWOT analysis, the objective of which is to 'identify strategies that align, fit or match a company's resources and capabilities to the demands of the environment in which it operates' (Hill, et al., 2007, p. 9). This is achieved by conducting an external analysis of environmental opportunities and threats and an internal analysis of the organization's strengths and weaknesses (Hill, et al., 2007).

The general environment consists of 'the set of broad dimensions and forces in an organization's surroundings that create its overall context' (Davidson, et al., 2006). There are five common forces, namely (1) economic, (2) technological, (3) socio-cultural (4) political-legal and (5) global. For businesses, the general environment is characterised by changing economic trends and public policy, the establishment and strengthening of national and international networks and technical advancements which enhance efficiency (Graetz, et al., 2006).

The task environment refers to organizations, individuals or groups that influence the firm. These include competitors, customers, suppliers and strategic alliances (Davidson, et al., 2006). Ansoff (1990), cited in Hubbard et al. (1996), suggests that when analysing the industry environment, it is essential to determine the level of turbulence experienced, as this can affect the development and deployment of capabilities that result in success. Until more recent times, this environment has commonly been analysed using Porter's Five Forces Model (Porter, 1998; Schaper & Volery, 2004). The five forces described in his model are (1) threat of new entrants (2) bargaining power of suppliers (3) bargaining power of buyers (4) threat of substitute products and (5) intensity of rivalry among competitors.

However, increased uncertainty and complexity caused by increased competition and change in more recent times has indicated the need to re-evaluate the application of these dominant strategic management theories. In a recent article, Sirmon & Hitt (2009), describe how environmental turbulence, caused by the introduction of new technologies and increased globalisation, forced many service offering companies to rethink how they would relate to their customers moving forward. The Global Financial Crisis (GFC), which began with the collapse of the sub-prime mortgage market in 2008, is an example of this. The GFC demonstrated the increasing complexity and uncertainty of the external business environ-

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