



ADVANCES IN APPLIED BUSINESS STRATEGY
VOLUME 7

**COMPETENCE PERSPECTIVES
ON MANAGING INTERNAL
PROCESSES**

RON SANCHEZ
AIMÉ HEENE

Editors

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ADVANCES IN APPLIED BUSINESS STRATEGY VOLUME 7

COMPETENCE PERSPECTIVES ON MANAGING INTERNAL PROCESSES

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COMPETENCE PERSPECTIVES ON MANAGING INTERNAL PROCESSES

ADVANCES IN APPLIED BUSINESS STRATEGY

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INTRODUCTION

The competence-based perspective on strategy and management emerged in the 1990s as a new approach to developing strategy and management theory and practice, partly in response to perceived limitations in theory bases prevailing in the strategy field at the time and partly out of a desire to conceptually re-orient management theory and research in ways that could lead to more useful recommendations for managers. A new focus on organizational competences – and the resources, capabilities, and processes that create competences – as the fundamental units of analysis seemed to offer significant potential for addressing both of these concerns. As theory development and research that has progressed for more than a decade now amply demonstrates, the competence-based perspective is providing a productive “broad church” for theory development, research, and practice in both strategic and general management.

For these reasons, a series of volumes on competence-based theory development, research, and practice was assembled and published in the *Advances in Applied Business Strategy* series in 2000 (Sanchez & Heene, 2000a, b, c). Given both the continued advancement of the competence-based perspective and its direct relevance to the focus of this series on applied business strategy (Sanchez & Heene, 2004), it is now opportune to visit again some important ongoing work in the competence perspective. To this end, we as series editors are pleased to present here the first of three new volumes on the competence-based perspective on theory, research, and practice in strategy and management. The present volume (Volume 7) provides current research papers developing the competence perspective on internal firm processes. Two companion volumes will soon follow. Volume 8 investigates interfirm interactions, and Volume 9 focuses on resources, stakeholders, and organizational renewal. Taken together, the three volumes provide new, provocative, and managerially useful investigations of the ways in which an organization’s resources, internal processes, and boundary-crossing interactions with other firms affect its competence building, leveraging, maintenance, defense, and renewal.

The papers in this volume contribute in many ways to developing a better theoretical and practical understanding of a range of internal processes that significantly affect an organization’s competences. In keeping with the “four cornerstones” in competence-based theory’s representation of organizations and

their management processes, the papers explore the dynamic, systemic, cognitive, and holistic aspects of internal processes. The papers present both important theoretical developments and empirical research based on a variety of case studies and other research in diverse industrial and geographical contexts. Through this growing body of empirical research rooted in both firm and industry studies, the papers also demonstrate the practical relevance as well as the conceptual richness of the competence perspective on management and strategy.

The papers in this volume are grouped under four themes and thus are presented in four parts. Part I includes papers that address the key issues of defining and communicating the *strategic logic* that directs and guides an organization's competence building and leveraging. The papers in Part II investigate the need to develop *strategic flexibilities* that enable a firm to respond effectively to a range of future environmental uncertainties. Part III includes papers that focus on ways to *identify and operationalize* an organization's competences – the ultimate source of an organization's ability to compete effectively in its environment. Part IV presents several papers that investigate the *systemic interdependencies* of an organization's competence building and leveraging activities. We provide below a brief summary of each of the papers in Parts I to IV of this volume.

PART I: DEFINING AND COMMUNICATING A STRATEGIC LOGIC

In their paper “Fractals, stories, and the development of coherence in strategic logic,” Janice Black, Frances Fabian, and Kim Hinrichs explore key communication dynamics that drive the *emergence of a coherent strategic logic* in an organization. Using a longitudinal study of a non-profit organization in the health and caring industry, the authors use “fractals” as a metaphor for organizational processes that help to crystallize a clear, coherent, and well understood statement of an organization's strategic logic. Their study also suggests how the mathematical rules that govern the iterative generation of fractals in nature can be applied to develop a “mathematics of social systems.” The authors' analysis of strategy processes in the subject organization shows how the use of storytelling through internal organizational publications can contribute substantially to the emergence of a coherent strategic logic and supporting value system within an organization.

A fundamental element in a firm's strategic logic is its *key activities*, “the activities an organization must perform well to achieve the ‘critical success factors’ in each market segment it serves” (Sanchez & Heene, 2004, p. 73). In his paper “Identifying key activities in banking firms – A competence-based analysis,” Eric Lamarque presents some of the first work in competence-based

strategic management research focused on developing an approach for identifying key activities in specific industry settings – in this case, the banking industry. In this approach, an “adapted value chain” model is developed for a group of subject banks. Analysis of empirical research designed around the model suggests that the two key activities that these banks should emphasize to become and remain competitive are risk management and the organization of distribution networks.

PART II: CREATING STRATEGIC FLEXIBILITIES

A basic goal of competence-based strategic management theory development is to develop concepts and models that can help managers to guide their organizations through dynamic environments. A key objective in this regard is to suggest management processes that can help firms develop a range of strategic flexibilities that may prove useful in an imperfectly predictable environment. In their paper “Scenario-based competence designation,” Seçkin Polat and Umut Asan explain how the dynamics and uncertainties of the future can be explored through processes for generating *alternative scenarios*. The authors then suggest that each scenario be analyzed to define concrete product offers that would be competitive in each future scenario. Taken together, these “product scenarios” can serve as a base for identifying resources and capabilities that an organization will need to compete effectively in the alternative futures represented by the scenarios. The authors apply their product scenario approach in an analysis of the security equipment market in Turkey. The market for closed circuit television (CCTV) security systems is studied to illustrate the processes of scenario building, deriving product scenarios, and identifying resources and capabilities needed to build and sustain organizational competences in this market’s uncertain future.

A fundamental way of representing strategic flexibility both conceptually and practically is to define a given flexibility by the range of real options that it brings to a firm (Sanchez, 1993, 1995, 2003). In his paper “The logic of real options in strategy implementation,” Stefanos Mouzas applies the logic of real options to identify and analyze important forms of strategic flexibility that a firm may develop in formulating and implementing its strategies. Mouzas conceptualizes strategy as an inventive stream of enacting what is possible for each organization within its network and environment. When organizations react to events as they unfold, they may build new competences that create new real options for taking action, and they may choose to leverage their competences by exercising some of their current real options. Mouzas draws on observations of manufacturer-retailer networks to illustrate this conception of strategy.

“Strategy as fit” and “strategy as stretch and leverage” have often been represented as different and even conflicting objectives in the strategy literature. In their paper “Competence-based management and strategic flexibility: The case of Air Liquide,” Emmanuel Metais and Pierre-Xavier Meschi propose a theoretically grounded and practical approach to overcoming the opposition between fit and stretch in strategy – and thereby to increase the strategic flexibility of an organization to respond effectively to a range of strategic demands in its environment. The essence of their approach is to demonstrate the fundamental *complementarity of fit and stretch* in an overall strategy. The theoretical framework they develop is applied through a case study of the global firm Air Liquide. Metais and Meschi show that in some of its activities, Air Liquide adopts a stretch emphasis and appropriate supporting processes, while in other activities a fit emphasis and related practices are applied. The key to crafting a successful, strategically flexible strategy is to clearly define, systematically integrate, and assure the coherence of both emphases in the firm’s overall processes. The authors also argue that strategy scholars should go beyond narrow views that simplistically represent fit and stretch as opposing and therefore mutually exclusive strategic choices. The authors argue that to sustain competitiveness, neither a fit nor a stretch emphasis alone will suffice. Firms in complex and evolving environments must be able to combine both strategic rationales in order to survive and succeed in the long term. (This theme is also developed in the papers in Part IV on systemic interdependencies between competence building and leveraging.)

PART III: IDENTIFYING AND OPERATIONALIZING ORGANIZATIONAL COMPETENCES

An increasingly evident strength of the competence-based approach to strategic management is its usefulness in clarifying the nature of the competences that are the sources of an organization’s strategic success. In their paper “Identifying competences using a service-process model in quality management: Empirical evidence from medical services,” Markus Orava and Malin Brännback present an approach to *identifying competences* that allow medical services firms to build and sustain service quality. The first step in their identification process is the development of a service-process model. Empirical evidence for the validity of the model is provided through an analysis of high-performing professional service processes in a private hospital. The service process model is then used to analyze critical elements of service quality that enable clarification of the organizational competences that make possible the hospital’s consistent delivery of high-performing services.

In competence theory's open systems view of organizations, explicit organizational efforts to build new competences are precipitated by managers' perceptions of strategic gaps – unacceptable differences between the desired state of an organization's system elements (strategic logic, management processes, intangible and tangible resources, operations, and product offers) and the perceived current state of its system elements. In his paper "Mergers and acquisitions as gap-closing activities in competence building and leveraging," Ralf Metzenthin describes a framework for *detecting strategic gaps* and for determining the kinds of actions that should be taken to build new competences or to improve an organization's competence leveraging. Depending on the outcome of this analysis, internal development, strategic alliances, acquisition of another firm, or full merger may offer the best solution to closing identified strategic gaps.

A critical objective of competence-based theory is development of frameworks that can help both researchers and managers identify clearly an organization's competences. In his paper "Operationalizing competences," Johan Wallin offers a framework for *competence identification* founded on an analysis of how competences and capabilities are (or can be) operationalized in an organization. The foundation of Wallin's framework is a categorization of capabilities derived from the competence view of the firm as an open system. Wallin's categorization approach most essentially depends on whether capabilities relate to lower-level system elements and the lower-order control loops that link them to a firm's management processes, or higher-level system elements and their higher-order control loops. The roles of both higher-order and lower-order capabilities are analyzed in processes for building, leveraging, and maintaining competences. The framework for identifying competences is then used to analyze competence and capability building processes in five Finnish companies.

PART IV: SYSTEMIC INTERDEPENDENCIES OF COMPETENCE BUILDING AND LEVERAGING ACTIVITIES

Perhaps the central question for research in strategic management is, "What elements can cause (and thus explain) the variation in performance outcomes between firms in an industry in both the short run and the long term?" In their paper "A systems view on what matters to excel," Noël Houthoofd and Aimé Heene undertake an extended literature review of factors that explain variations in *competitive outcomes*. They summarize these factors as relating to four broad categories of critical success factors: (1) managerial cognition and leadership; (2)

variations in competitive positions taken within the environment; (3) differences in the choice of competitive and entrepreneurial domains; and (4) differences in operational management. Houthoofd and Heene also propose that these four elements are systemically interconnected in double-loop processes of competence leveraging (the short-term loop) and competence building (the long-term loop).

Competence-based theory proposes that firm growth should strike a critical “strategic balance” between competence building and competence leveraging activities. In their paper “Exploring the growth strategy of contract electronics manufacturers in Taiwan: A competence-based perspective,” Ji-Ren Lee, Jen-Shyang Chen, and Ming-Je Tang propose that achieving the right *strategic balance* can lead to multiple synergistic effects in a self-reinforcing cycle of competence building and leveraging activities. To demonstrate this important effect, the authors investigate the link between these strategic activities and performance in Taiwan-based contract electronics manufacturers. The results of this investigation broadly suggest that building specific product-related competence is essential to a contract manufacturer’s achievement of superior profitability, and more specifically that appropriate leveraging of competences between subcontracting services and own-brand businesses will significantly enhance both profitability and sales growth.

In dynamic environments, ongoing competence building must be a central internal process in any firm. In her paper “Outline of a theory of competence development,” Heike Proff draws insights from a broad set of strategy literature to argue that *competence development* should cyclically alternate between competence “upgrading” and competence “renewal.” Proff also explains how this cycle will be subject to change over time. Four types of changes in the internal and external environments of an organization are identified as directly impacting competences – and therefore must be explicitly recognized as essential elements in any theory of competence development: (1) changes in a firm-specific resource base; (2) changes in managerial perceptions of how competences create customer value; (3) the unintended and undesired diffusion of knowledge; and (4) changes in the environmental dynamics specific to a firm. A case study of Japanese automobile manufacturers in the European markets in the 1990s is used to demonstrate the relevance of Proff’s analysis in framing research into competence development.

In both theory and practice, successful competence building and leveraging processes require balancing and integrating multiple strategic and organizational concerns. In his paper “(Un)successful management of a firm’s dynamic business: Where to should competence-based concepts be advanced?” Pekka Huovinen evaluates the implications for competence management processes of eight schools of thought in strategic management. The strategy schools considered include the: (1) Porterian perspective; (2) resource-based view; (3) competence-based theory; (4) knowledge-based ideas; (5) organizational perspectives; (6) process

orientations; (7) dynamic perspectives; and the (8) evolutionary school of thought. Huovinen evaluates the defining concepts in each school of thought and their potential for being systemically interrelated in ways that can give managers useful advice in guiding a firm through a dynamic environment. To this end, the author develops a framework based on the principles inherent in Stafford Beer's "viable system" model. The evaluations presented by the author suggest that the potential for contributing to a systemically integrated approach to strategic management varies considerably among the eight schools of thought. Promising ways to advance the competence-based perspective, in particular, are proposed.

Ron Sanchez and Aimé Heene
Editors

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