

# Corporate abilities


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*This brief paper aims to discuss (as a review) the notion of organisational/corporate abilities, a term that, albeit frequently used in the business world, often presents ambiguities in terms of its meaning. We tried to uncover an exact definition for it using different approaches, as well as models of organisational description and/or diagnostic value; however, none of these could provide us with a distinct answer. As the paper could not afford to undertake the introduction of every single approach that has so far been laid down in this subject, we cannot endeavour to formulate our own definition; our work only serves to illustrate that the concept has deeper meanings and thus cannot be used without interpretation. It can have different meanings, which sometimes inhibits the factual description of a given scenario, even though that is what terminologies are usually for. We have concluded that an accurate definition of the concept would be essential, as those specialising in organisational science could benefit from its standardised use.*

*Keywords: Organisational competence, organizational ability, managerial science, management tools, organizational science, organisational diagnosis*

*JEL: D2, D20, D21, D23, D29, L21, L25*

## 1 Defining the concept

Organisational/corporate ability is an evolving and complex concept, its use has not yet been given a clear standard. It is more than just a mere summary of organisational resources. Besides these resources, the concept also involves phenomena brought about by the organisation in an involuntary and organised fashion (such as organisational culture, leadership culture), all of which create one system, or a "whole" (Gestalt). This „whole” gives birth to a new, higher quality. With regards to organisational abilities, the axiom that says the whole is

not equal to the sum of its parts is true. Due to its synergic<sup>1</sup> operation, this “whole” is greater than the sum of its parts<sup>2</sup>. In the case of dyssynergic operation, it may even be less. The ceiling for synergic operation is the maximum of potential resources and opportunities that are present in the organisation. Dyssynergic operation may cause the death of an organisation, therefore this is the final operational limit. In practice, on countless occasions we have seen businesses with good partial competences (abilities, capabilities, etc.) that were still unsuccessful; however, we have also observed the opposite, when departments of more modest competences cooperated effectively (in synergy) and were successful. This phenomenon of diverse group dynamics is also known in social psychology. A group of well-skilled participants that perform at low levels of effectiveness is called an Apollo group (Belbin, 2000).

Organisational abilities can be approached from different angles; one significant feature is the dimension of time (variable vs. stable abilities). Another approach distinguishes between hard and soft factors in organisational competences (Peters and Waterman, 1986). Hard factors are the available infrastructure, machinery and so forth. Human resources, knowledge base, learning skills, organisational culture, communication strategies, managerial-leadership-organisational technologies, values<sup>3</sup> etc., belong to the category of soft factors.

## 2 The creation of value

It is the organisational competences' capability (potential) and their level of utilisation (realisation) that determine an organisation's ability to perform, create value and secure competitive advantage in its operations. The basic aim of a healthy organisation is to survive and prosper (profit maximisation). These aims can only be reached in the long run if the organisation is able to generate added value (Porter 1980, 1985, 1990; Slywotzky 1995, 1999) and create new values. This requires the organisation to ensure and maintain its competitive advantage

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<sup>1</sup> A simplified definition of synergic operation is when cooperation (by members or units of an organisation) results in the creation of surplus value and the shared result is greater than the sum of values generated while working in separation. In the case of dyssynergic operation, the result of cooperation can never exceed this sum.

<sup>2</sup> The so-called Ehrenfels criteria were first discussed by Wertheimer (1925), although the Hungarian science community was introduced to them by Kardos (1974).

<sup>3</sup> Hard factors can be the available infrastructure, machinery and so forth. Human resources, knowledge base, the ability to learn, organisational cultures, communication strategies, managerial-leadership-organisational technologies, values etc., belong to the category of soft factors.

(Porter 1980, 1985, 1990) over its competitors, thus developing the most suitable adaptation method for its environment.

Organisational research conducted in the past decades have set a direction of thought, according to which it is no longer the hard factors that determine the standards for value creation. Property and machinery -both as resources and as underlying opportunities for organisational competence- can all be bought (so-called divisible resources). However, the survivability and development of an organisation are instead determined by its soft components (collected by Németh 2001, 2003). Several factors can be mentioned here as elements that, even on their own, can greatly influence the competences of an organisation yet, when combined, serve as the crucial factor in determining the organisation itself (so-called indivisible resources, such as leadership culture, organisational culture, core values).

Research made into organisational culture points out that the quality, strength and ruggedness of culture (its power to identify, social penetration and model-providing ability) all affect the performance of an organisation to a significant extent. (For instance, companies with a strong leadership culture showed an overall growth of 682%, during the 11 years of observation, whereas this figure among their weaker counterparts was only 166% over the same time period<sup>4</sup>)(Denison 1990, Kotter and Heskett 1992, Schein 1990). Other research showed positive performance correlations with regards to managerial value transfer and organisational performance (Cameron and Quinn 1999, Németh 2003).

An organisation's efforts in the preservation and everyday usability of its own values, as well as in the generation of new ones, forms part of its organisational culture. Therefore, it is a fundamental principle in the quality of knowledge (as value) creation, preservation, traditionalisation and transfer. It is a form of organisational learning ability (Senge 1998). The ability to learn is about competence development and regarded as one of the modules that can be embedded in the strategy. This organisational competence can be developed<sup>5</sup> by the implementation of the strategy (as per Mintzberg, Argyris and Kaplan-Norton). By means of the same embedding process, other organisational competences can be developed as well.

By prioritising the maintenance and development of core competences, the ability of a given investment to create competitive advantage can also be determined. Thus, in a given scenario, even acquisition targets, that may either strengthen or weaken the core business of the organisation, can be decided on (Tóth 2003).

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4 Wall Street Journal (2/14/1997)

5 It is very useful in diagnosing development potential

### 3 What is the process of value creation within an organisation like?

As an answer to this question, Gray (2002, p63) offers a model, which we have amended with a few additional remarks. We have also used several approaches from the tools of success management<sup>6</sup>.

The message of this model is that the entrepreneur/manager performs different transformations with his competence using resources his skills allow him to reach, which may result in a novel condition of resources. This novelty is the value, which, when favoured by the market, can be regarded as value added.

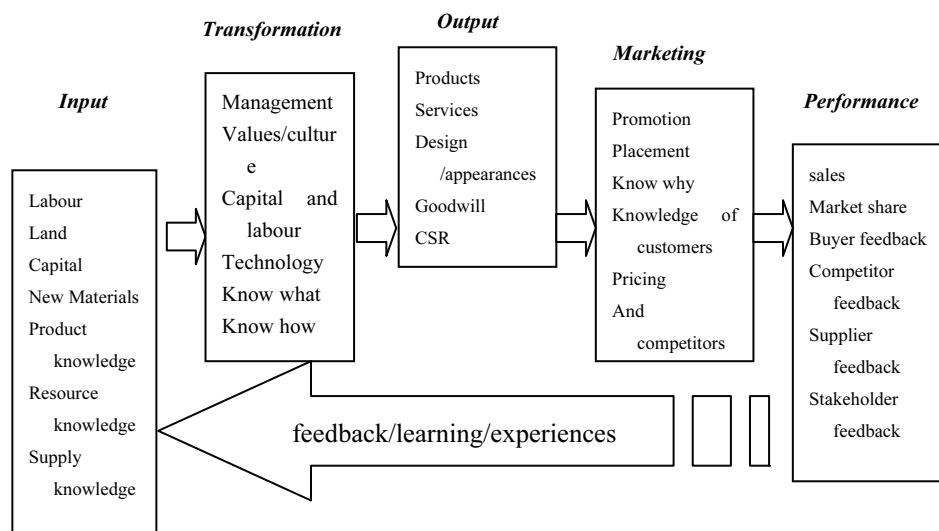


Figure 1  
(Gray 2002. p63 supplement by Németh)

<sup>6</sup> Amongst quality-oriented models, such is TQM (Tenner, DeToro 1996) and, derived from it, the European version EFQM. As for success-based models, we should mention 4+2 (Nohria et al 2003) and the McKinsey model (Peters and Waterman 1981).

## **4 Competences and strategy**

At the creation of the strategy, a significant role must be given to the management of organisational competences, in which the establishment, maintenance, development and the most ideal realisation of opportunities shall be dealt with.

### **4.1 Resource-based view (RBV) with respect to several analysis methods**

Resources are the building blocks of an organisation. Nothing new is exposed by the statement that the road to the generation of quality value added leads through the utilisation of potential resource competences. The manifestation (appearance in the life of the organisation, e.g. in creating strategies, implementing decisions, motivation) and synergic interaction of resources (I am also including current leadership cultures) and different competences shall determine the performance of the organisation.

RBV focuses narrowly, only on internal aspects. Strategic thinking, however, cannot lack the consideration of the environment as well, thus it cannot be omitted when examining organisational competences either. Let's have a look at the PEST-analysis, a widely used method for strategic analysis (the abbreviation stands for political, economic, social and technological environments), which mainly focuses on the environment. This approach stretches beyond the examination of the cluster environment and aims to cover a multi-level (or – dimensional), 360-degree review of the organisation.

Cluster data can best be applied to data collection in Best Practices and benchmarking, during competency examinations. Another limitation of RBV is that it concentrates on the past and perhaps the present. Anticipating the future should have at least the same, if not greater, level of significance at the creation of a resource-based strategy approach (Sirower 2000). In the methodology of behaviour-based organisational development (Gallos - ed 2006), past and present are important factors for they constitute, as circumstances, the foundation of our actions, but the vision of the future we strive to achieve is more emphatic. We define the kinds of competences the organisation will need in order to achieve its envisaged future status.

Resource examination is a fundamental process in strategy building. One of the most widespread of such examinations is based on SWOT analysis, which we have, for the sake of this paper, considered to be the questioning of

organisational competences for the purposes of value creation. The VRIO<sup>7</sup> (Barney 2005) method for strategic analysis deals with the features of resources that provide long term competitive advantage. These analyses reveal how special, flexible and duplicable the competences<sup>8</sup>, of an organisation are, as well as to what extent can they be further developed (Aaker 2001). This can provide an answer to the sustainability of competitiveness.

## 5 Dynamic competences

This term stands for organisational competences that can integrate, construct and reconfigure an organisation's internal and external competencies, and thus respond to swift changes in the environment (Teece et al 1997).

As mentioned above, the organisation aspires to survive. It is, therefore, a fundamental goal of competences to help the organisation to adapt. Accordingly, flexibility is a defining feature of organisational competences. Another important concept is that of entropy<sup>9</sup>. The unification of partial competences into one system must result in the reduction of entropy, as this is the most effective survival method. At the same time, however, the organisation must also have a certain tolerance for frustration as well because, if the orderliness were to become perfect, it would result in an inflexible system, ceasing all adaptation to the environment. Moreover, tolerance is required from the system also in its acceptance of the consumption of resources, which are expended in its efforts to attain orderliness.

An initial assumption of RBV is that companies possess heterogeneous sets of resources, which result in the differences between them and their performances (Penrose 1959; Wernefelt 1995 id. Tóth K. 2002). Peteraf (1993) distinguishes between three special resources: 1. possession of rare fixed, or quasi-fixed resources; 2. Advantages due to monopoly status; 3. Innovation, new knowledge.

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<sup>7</sup> VRIO is The Question of Value: "Is the firm able to exploit an opportunity or neutralise an external threat with the resource/capability?" The Question of Rarity: "Is control of the resource/capability in the hands of a relative few?" The Question of Imitability: "Is it difficult to imitate, and will there be significant cost disadvantage to a firm trying to obtain, develop, or duplicate the resource/capability?" The Question of Organisation: "Is the firm organised, ready, and able to exploit the resource/capability?"

<sup>8</sup> Although similar, the concept of organizational competence differs from the definition of personal competency. Competency consists of three factors: tacit knowledge, skills-abilities and attitudes.

<sup>9</sup> Entropy is the level of disorder or randomness. The higher the entropy index, the greater the level of disorder in the system.

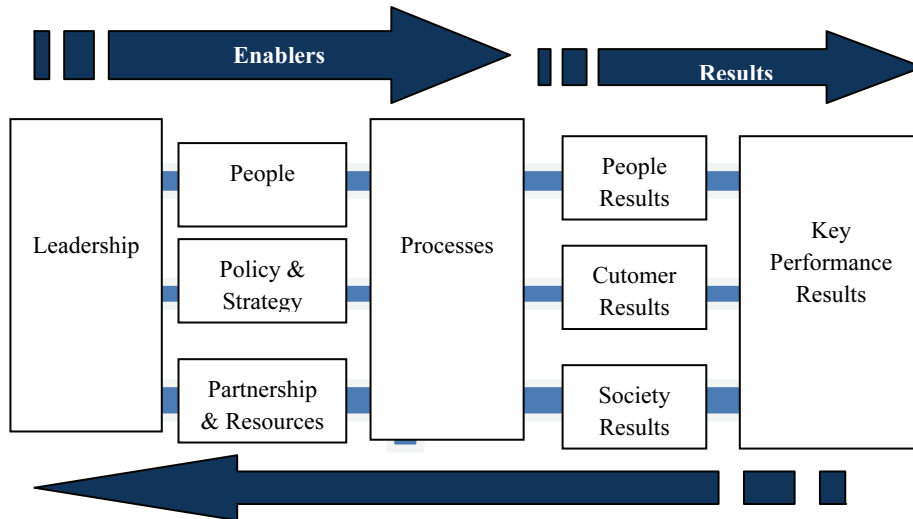
Enduring competitive advantage can, therefore, only be derived from resources and competences that are rare, hard to duplicate and/or can be mobilised or substituted. In other words, we have just declared that no perfect resource market exists. The continuous development of its capacities (resources, competencies) is of vital importance to an organisation, as a technological breakthrough may easily nullify a competence that so far has ensured the organisation's competitive advantage. Competence development methods are the result of a series of strategic decisions. Agreeing with Dietrickx and Cool (1989), I also deem it important to highlight how an organisation can arrive at the decision for competence development. Namely, this notion of internal maturity (organisational learning) (Senge 1998) will become integrated with the culture of the organisation, making it stronger and more tenacious.

## **6 Organisational competences, EFQM, 4+2 and other models**

In the EFQM model, organisational competences (enablers) are presented on the left (leadership, people, policy & strategy, partnership & resources, processes, innovation & learning), while their results and the level of manifestation are examined on the right.

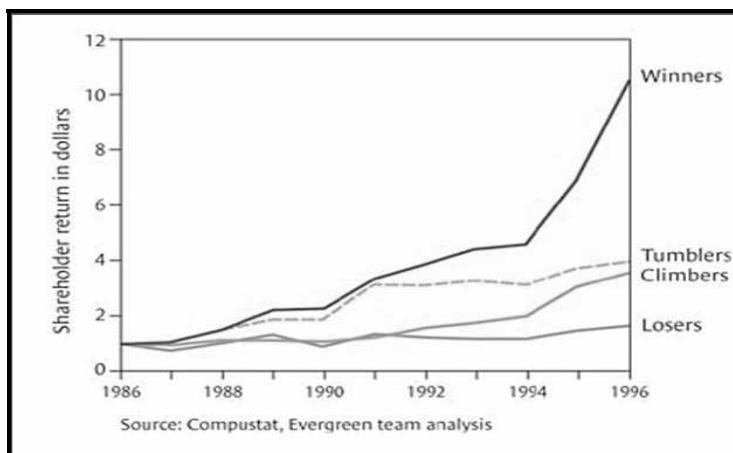
When looking at competences, another feature of the EFQM is worth using. This feature is called self-reflection. Some of the competences are visible, whereas others, such as knowledge, are often invisible -some may remain invisible even to the organisation itself. That is why it is recommended to involve most of the human resources in internal reviews and help invisible resources to surface.

Beyond EFQM, we also find the 4+2 model, due to its empirical foundations, to be harsh but felt it necessary to cite it because of the concept being examined. During years of research, their authors (Nohria et al 2003) had reviewed hundreds of companies along different dimensions. They had analysed 200 managerial practices, which they rated, together with leaders and staff members from the 160 selected organisations, on a scale of 1 to 5 in terms of their effect and importance. In the next stages, an enormous amount of information was collected from these organisations. This included accounting-related data, information from consultants, newspaper articles, contracts, and so forth.



2.figure  
(EFQM modell)

Based on their inspections they concluded that these 160 organisations can be divided into four clusters. The division criteria was the cumulative performance of the ten business years examined (1986-1996). The Group analysis showed that there were a few Winners, which experienced near-continuous growth and development, and whose investors realised nearly tenfold earnings on their shares. (See 3 figure. Source: HBM, February 2004, p8).



3.figure  
(Source: HBM, February 2004, p8, origin: HBR July 2003)



The research had another observation, which is more interesting and relevant with regards to this paper. After grouping these organisations in terms of level of success, researchers investigated what the cause for success might be, what were the managerial tools that Winners used to attain such spectacular success.

This part of the research yielded rather surprising results. Having examined all 200 managerial practices, it was hard to select the ingredients for the recipe of success. It turned out that it was irrelevant whether an organisation chose the principles of TQM, Kaizen or the 6 Sigma, in order to realise its ideas. Instead, with regards to enduring success, what really mattered were pragmatism and a distinctive attention to operations.

The findings of the Evergreen research were that, in four primary managerial practices (strategy, culture, implementation/execution and structure)<sup>10</sup>, all Winners excelled during the period examined. With regards to secondary managerial practices (skills, leadership, innovation, mergers and partnerships), at least two fields must be excelled in. No significant performance increases can be expected upon their overachievement, whereas companies not excelling in the 4+2 routine showed dramatic setbacks.

It seems that organisational competences are interpreted in this model in a special pattern of 4+2. This model has proven undoubtedly that, instead of a tool-level, the operation of managerial practices results in performance consequences at higher, more abstract levels. Therefore, no managerial tool should be used for

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<sup>10</sup> Primary management practices: Strategy: Whatever your strategy, whether it is low prices or innovative products, it will work if it is sharply defined, clearly communicated, and well understood by employees, customers, partners, and investors.

Execution: Develop and maintain flawless operational execution. You might not always delight your customers, but make sure never to disappoint them.

Culture: Corporate culture advocates sometimes argue that if you can make the work fun, all else will follow. Our results suggest that holding high expectations about performance matters a lot more.

Structure: Managers spend hours agonizing over how to structure their organizations (by product, geography, customer, and so on). Winners show that what really counts is whether structure reduces bureaucracy and simplifies work.

Secondary management practices: Talent: Winners hold on to talented employees and develop more.

Innovation: An agile company turns out innovative products and services and anticipates disruptive events in an industry rather than reacting when it may already be too late.

Leadership: Choosing great chief executives can raise performance significantly.

Mergers and Partnerships: Internally generated growth is essential, but companies that can master mergers and acquisitions can also be winners.

its own sake; instead, they should be employed pragmatically and for the sake of value creation, which is the foundation of enduring success.

## 7 Measuring organisational competences

Measuring organisational competence is a complex procedure -which is more or less granted, given the complexity of the concept itself. It requires the organisation to be examined at different depths and dimensions. Rather than a simple status report, it is more of a survey of operational, developmental and implementation potential (due diligence). The end result is a study in which present and attainable statuses are both drafted and the effects of changes included. This document must rely on absolutely accurate, live data, otherwise it is meaningless. It can be used directly at the creation of strategies. Due to the complexity of the survey, contingent special competencies may also be required and, just as with most measurements, a more objective result can be attained when conducted by outside experts.

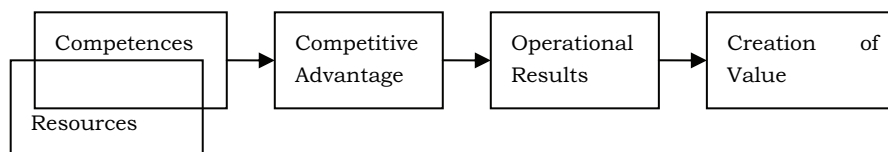


Figure 4

(Haspeslagh and Jemison 1991. p23 illustrated by Németh)

According to the logic of the figure, we can assert the following. Special resources and competences provide the competitive advantage of an organisation. Competitive advantage brings forth the realisation of higher operational results, which results in the creation of new values. An organisation that chooses not to spend away its future must constantly persist in its development processes aimed at the preservation and reproduction of competences. Having studied best practices and successful organisations (a whole range of managerial literature is available), this is how organisations that think and wish to operate in the long run all work.

Examinations should cover the following areas: Organisational culture, organisational interests, knowledge management, resource management, environmental survey, management of value creating processes, change

management, organisational communication and the potential of synergies for value creation.

The study should be conducted at regular intervals that differ from industry to industry. It is recommended to compare the study to the results of previous years, however, concentrating on the future and not on the past. The concept of due diligence embraces the actual status in a continuously changing world but, by looking ahead and integrating its suggestions into the strategy, it can change organisational competences and, as a result, the performance of the organisation as well.

### **Summary**

As a summary we can determine that the concept we have selected as a subject of our examination is multi-layered. Its definition requires further research. At present we can establish that organisational competence is the phenomenon of autonomy over abilities and resources, and can best be embraced at the level of creating value-added.

This brief paper aims to discuss the notion of organisational competence, a term that, while frequently used in the business world, often presents ambiguities in terms of its meaning. We tried to uncover an exact definition for it using different approaches, as well as models of organisational description and/or diagnostic value; however, none of these could provide us with a distinct answer. As the paper could not afford to undertake the introduction of every single approach that has so far been laid down in this subject, we cannot endeavour to formulate our own definition; our work only serves to illustrate that the concept has deeper meanings and thus cannot be used without interpretation. It can have different meanings, which sometimes inhibits the factual description of a given scenario, even though that is what terminologies are usually for. We have concluded that an accurate definition of the concept would be essential, as those specialising in organisational science could benefit from its standardised use.

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