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# ANALYSIS OF RESOURCES AND CAPABILITIES FOR STRATEGY FORMULATION

*Досліджено зростаючий акцент на ролі ресурсів і здібностей як основи стратегії розвитку підприємств. Визначено, що конкурентна перевага, а не привабливість галузі є основним джерелом вищої рентабельності. Встановлено, що основою ресурсного підходу є визнання того, що підприємство повинно домагатися ретельного і глибокого розуміння своїх ресурсів і можливостей.*

*Ключові слова: ресурси, стратегія, глобальна конкуренція, інновації у фінансовій сфері, консолідація.*

Global competition, innovations in finance, consolidation of the customer-base and the increasing influence of institutional shareholders are a few examples of changes in the contemporary market environment world-wide.

Increasing emphasis on the role of resources and capabilities as the basis for strategy is the result of two factors.

First, as company's industry environments have become more unstable so internal resources and capabilities rather than external market focus has been viewed as a securer base for formulating strategy.

Second, it has become increasingly apparent that competitive advantage rather than industry attractiveness is the primary source of superior profitability [1].

Fundamental to a resource-based approach is recognizing that a company must seek a thorough and profound understanding of its resources and capabilities. Such understanding provides a basis for:

1. Selecting a strategy that exploits a company's key strengths.

2. Developing the company's resources and capabilities.

Resource analysis is not just about deploying existing resources; it is also concerned with filling resource gaps and building capability for the future [2].

It is important to distinguish between the resources and the capabilities of the company: resources are the productive assets owned by the company; capabilities are what the company can do.

To take a wider view of a firm's resources it is helpful to identify three principal types of resource: tangible, intangible, and human resources.

Tangible resources are the easiest to identify and evaluate: financial resources and physical assets are identified and valued in the firm's financial statements.

However, the primary goal of resource analysis is not to value a company's assets, but to understand their potential for creating competitive advantage.

For many companies intangible resources remain largely invisible in financial statements.

The human resources of the firm are the expertise and effort offered by its employees.

Companies are continually seeking more effective methods to assess the performance and potential of their employees. Companies are relying less on formal qualifications and years of experience and more on attitude, motivation, learning capacity, and potential for collaboration.

Together, resources and capabilities include all the assets owned, controlled or otherwise occupied by a company that are leveraged to develop and implement a set of specific decision options (strategies).

Establishing competitive advantage through the development and deployment of resources and capabilities, rather than seeking shelter from the storm of competition, has become the primary goal for strategy [3].

For a resource or capability to establish a competitive advantage, two conditions must be present:

1. Scarcity. If a resource or capability is widely available within the industry, then it may be essential to compete, but it will not be a sufficient basis for competitive advantage.

2. Relevance. A resource or capability must be relevant to the key success factors in the market.

The profits earned from resources and capabilities depend not just on their ability to establish competitive advantage, but also on how long that advantage can be sustained.

This depends on whether resources and capabilities are durable and whether rivals can imitate the competitive advantage they offer. Resources and capabilities are imitable if they are transferable or replicable [4].

Business analysis requires consideration for the past, present, and possible future conditions of the company in question. A company’s past condition provides insights about its actual growth and the challenges it has faced. On the other hand, the present business condition indicates how the company really fares given current issues in the industry and market. The company’s possible future conditions imply how it aims to improve its performance and achieve long-term success. A three step approach to the appraisal of resources and capabilities and how these affect strategy formulation is outlined below [5].

Step 1 Identify the Key Resources and Capabilities

What factors determine why some companies in an industry are more successful than others and on what resources and capabilities are these success factors based? Value chain analysis can be used here.

Step 2 Appraising Resources and Capabilities

Resources and capabilities need to be appraised against two key criteria.

First is their importance: which resources and capabilities are most important in conferring sustainable competitive advantage?

Second, where are our strengths and weaknesses as compared with competitors?

Objectively appraising the comparative strengths and weaknesses of a company’s resources and capabilities relative to competitors is difficult.

Benchmarking allows companies, first, to make objective assessments of their capabilities relative to competitors and, second, to put into place programs to imitate other companies’ superior capabilities [6].

Putting together the two criteria – importance and relative strength – allows to highlight a company's key strengths and key weaknesses.

Step 3 Developing Strategy Implications

The key task is to formulate strategy to ensure that the resources are deployed to the greatest effect. Different companies within an industry have different capability profiles, this implies differentiation of strategies within the industry.

Step 3 is to develop strategy implications by exploiting key strengths, managing key weaknesses and developing response in relation to superfluous strengths.

Possibly the most difficult problem in developing capabilities is that we know little about the linkage between resources and capabilities.

The companies that demonstrate the most outstanding capabilities are not necessarily those with the greatest resource endowments. It is not the size of a company's resource base that is the primary determinant of capability, but the firm's ability to leverage its resources [7].

We have shifted the focus of our attention from the external to the internal environment of the company. This internal environment comprises many features of the company, but for the purposes of strategy analysis, the key issue is what the company can do. This means looking at the resources of the firm and the way resources combine to create organizational capabilities. Systematic appraisal of a company's resources and capabilities provides the basis for formulating (or reformulating) strategy.

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***O. Lugovaya. Analysis of resources and capabilities for strategy formulation.***

*Summary*

*Researched the growing emphasis on the role of resources and capabilities as the basis of strategy of development of enterprises. Determined that competitive advantage, not the attractiveness of the industry is the main source of higher profitability. It is established that the resource-based approach is the recognition that the company must achieve a thorough and deep understanding of their resources and capabilities.*

*Key words: resources, strategy, global competition, innovations in the financial sector, consolidation.*