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Martens, Rudy;Bogaert, Ilse;Andre Van Cauwenbergh
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RUDY MARTENS, ILSE BOGAERT, AND
ANDRÉ VAN CAUWENBERGH

Preparing for the Future as a Situational Puzzle

The Fit of Strategic Assets

From strategic assets to a sustainable competitive advantage

Over the last decade, a mass of publications has emerged on the resource-based perspective on strategy. This literature is often characterized by terminological imprecision and even confusion. Competence, core competence, (invisible) assets, strategic assets, strategic stocks, resources, skills, and so on are used to denote the (strategic) components of a firm's competitive advantage. To avoid any misunderstanding, a clear delineation of the concept of strategic asset—the central concept in our further analysis—is needed.[1] An *asset* is something that is available for the firm at some place(s), and may be tangible as well as intangible (Sanchez, Heene, and Thomas, 1996). An asset may be something a firm has (a brand name, a patent, access to sources of cheap energy or raw materials, etc.) and/or it may be a

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Rudy Martens is Professor of Management, Ilse Bogaert is a Research Assistant currently working on her doctoral dissertation, and André Van Cauwenbergh is Professor Emeritus, all at the Faculty of Applied Economics at UFSIA, University of Antwerp, Prisstraat 13, B–2000 Antwerp, Belgium.

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way something is done, such as specific technology or team experience), as long as it has a value for some corporate purpose.

In general, assets are perceived to be(come) *strategic* if they are grounds for establishing a firm's competitive advantage. The search for and creation of competitive advantage is a prerequisite for a company to be confident of delivering sufficient value to its stakeholders (Campbell, 1995). Simply put, competitive advantage can evolve from *distinctive competences*, which are the capabilities the organization possesses that set it apart from its competitors (Hall, 1991). The firm should identify its key business processes, manage them centrally, and invest in them heavily, looking for a long-term payback (Stalk, Evans, and Shulman, 1992).

In order to *keep* an established competitive position or dispose of a sustainable asset stock position (Dierickx and Cool, 1988), such as technological lead or customer loyalty, a firm should erect *resource position barriers*. In so doing, a firm has to find a balance between the exploitation of *existing* resources and the development of *new* ones (Wernerfelt, 1984). Strategic management should thus, in essence, deal with developing and maintaining strategic assets and skills, with selecting strategic and competitive arenas where the firm can exploit those assets and skills, and with neutralizing competitors' assets and skills (Aaker, 1989). In other words, there should be a *dynamic resource fit*. According to Itami (1987, p. 125): "Effective strategy in the present builds invisible assets, and the expanded stock enables the firm to plan its future strategy to be carried out. And the future strategy must make effective use of the resources that have been amassed." This corresponds to the idea of developing a corporatewide *strategic architecture*, that is, a road map of the future that identifies the core competencies the firm should build and their constituent technologies (Prahalad and Hamel, 1990, p. 89). These concepts are connected in figure 1.

Identifying a set of strategic assets to concentrate on has been a persistent challenge for managers (Amit and Schoemaker, 1993). Some ideas have been offered to take up this challenge through learning. Prahalad and Hamel (1990) argue that the organization should learn collectively, especially about coordinating production skills and integrating technologies. According to Stacey (1991), the nature of organizational learning, which also happens collectively in groups, stresses the impact of combinations of personalities within the group, the dy-

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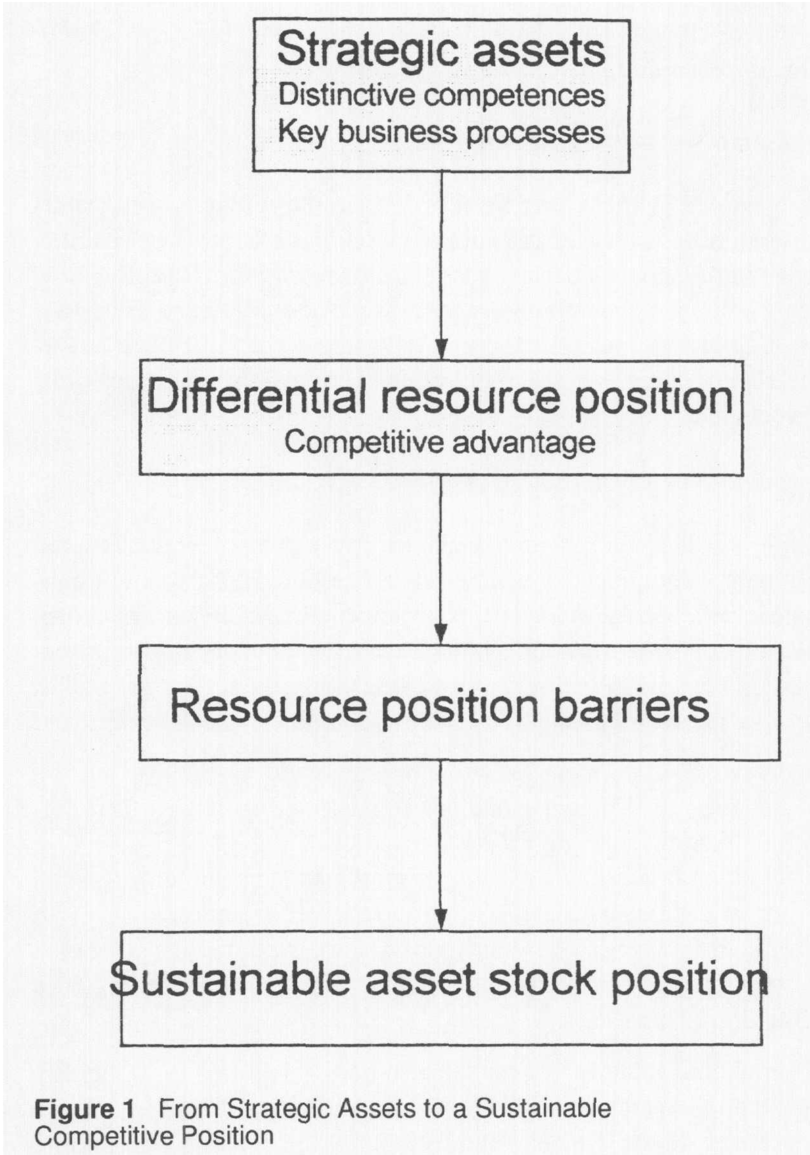

Figure 1 From Strategic Assets to a Sustainable Competitive Position

namics of the group, and the culture the group has developed.

In our conception, a strategic asset, then, is an asset that is *of high value for a firm* (or some part of it) in *adjusting itself to, or preparing itself for, a (strategic) opportunity at some point in time.* Although strategic assets are mostly stocks accumulated with time and energy

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(investment flows), we admit that strategic assets may also simply emerge in business life (Mintzberg, 1978).

The assembly of strategic components

Many valuable insights have been offered in the resource-based strategy literature to recognize relevant (strategic) components in business management. Little guidance is given, however, with respect to how critical components, or strategic assets, as we now call them, are or can be used. Some critical reflections on the characteristics of these strategic assets and their assembly may offer better insight into basic strategy processes.

Categorization and characteristics of strategic assets

Strategic assets may encompass almost any aspect of organizational functioning—equipment, systems, human resources, knowhow (technological, production, financial), environmental acceptance, and so on. Moreover, the categories and variables useful for a specific business depend on the type of industry and context where strategic action takes place. One important distinction can and should be made between:

1. *All-purpose strategic assets*: corporate-wide assets that *can* be deployed in different situations (e.g., firm reputation, firm culture, brand image and financial resources), and
2. *Situation-bound strategic assets*: assets that turn out to be important in dealing with some specific strategic situation(s) (e.g., an efficient personal relationship with some government body or a specific technical knowledge that is crucial in responding to a perceived problem).

A promising route to further explore both categories is to identify the general characteristics of these strategic assets.[2] It can be argued that strategic assets are: (1) scarce—that is, rare among the firm's current and potential competitors, (2) characterized by access barriers and imperfectly imitable, (3) generating significant value for the firm, and (4) mostly *unsteady*.

The last characteristic has often been overlooked in many studies. Although a few strategic assets may be fairly stable (e.g., a competitive location), most strategic assets are dynamic; they frequently change in

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value and/or utility. Some strategic assets, such as personal networks, may even appear or disappear on the very scene where a strategic action is developing. One might argue that strategic assets characterized by a high degree of volatility deserve more attention and nurturing than the more stable ones because the volatile ones are more difficult to label and interpret. Sometimes the most volatile or dynamic strategic assets may evolve into more stable all-purpose strategic assets.

All-purpose strategic assets such as brand loyalty, firm image, and basic technological experience in production processes have already received extensive attention. These kinds of assets need to be constantly nurtured since they are subject to erosion (Dierickx and Cool, 1988). Imitation is difficult in that these assets are often the result of a slow build-up (e.g., the brand loyalty of Coca-Cola's customers). But attempts at imitation are made in business life (e.g., the "Pepsi challenge"), although the cost of time compression (Dierickx and Cool, 1989) prevents competitors from building desired strategic assets rapidly.

The internal fit of strategic assets

One of the major issues in the resource-based perspective involves the degree of *interdependence* or *mutual convenience* between strategic assets—what is called *internal fit*. Strategic assets may also be mutually exclusive, as argued by Stalk, Evans, and Shulman (1992). The synergy between different kinds of assets is rightly considered the basis for a firm's superior performance. One may think of the reciprocal adjustment of the "hardware" (e.g., machines, logistic processes, etc.) to the "software" (e.g., the motivation and capability of managers) as the basis of competitive performance. As such, it can be argued that, although strategic assets possess a profit potential (the value is greater than the cost of using it), the realization of a profit potential often depends on the availability of, and adjustment to, other strategic assets. Adjusting several strategic assets to each other can multiply the value of each. In fact, finesse is needed to reach the best possible impact with the least possible resources.

Strategic assets not only have to be attuned to each other, but must interact closely with operating variables such as product availability and advertising campaigns. Most people nowadays agree that business strategy does not refer to secluded reflections in the boardroom, but deals with strengthening or adjusting the many daily operations carried out in the firm.

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Achieving an internal fit of strategic assets is a constant concern in strategy formation. The usefulness of some strategic asset may depend on the availability of some other strategic asset(s). According to Hamel and Prahalad (1993), it is by blending different types of resources in ways that multiply the value of each that management transforms, while leveraging, its resources. Several skills are involved in blending resources, including technological integration, functional integration, and the imagination to envision new products. In view of the volatility of strategic assets, the assembly of components may turn out to be rather complex, constantly changing, and at times unpredictable.

The situational fit of strategic assets

The fit of the assembled strategic assets with the outside situation at hand is a prime concern in a resource-based view. This is what we call the *situational fit* of the strategic assets. It refers to:

1. The fit with the *strategic field* on which the (combination of) strategic assets are being used. Here, some observations with respect to managers' perceptions and the variety of possible strategic fields result in an evaluation of the usefulness of overarching strategies.
2. The fit with the *time* factor. Here, the time pressure and time horizon will be promoted as essential elements in a resource-based analysis of a business.

The fit of assets with a strategic field

Stalk, Evans, and Shulman (1992, p. 65) describe a type of firm they call a "capabilities predator" that can come out of nowhere and rapidly move into the position of a major player. Identifying the underlying capabilities and concentrating all actions and processes on these capabilities should result in a firm's growth path. The capabilities predator focuses on its strategic capabilities and can compete in various regions, products, and businesses. In short, once a business has collected its strategic capabilities, it can cope with a whole range of situations.

Yet, we would like to point out that strategy refers to a business's (re)actions in response to some perceived existing or anticipated strategic field, by which we mean the real or conceptual area in which supporting and counteracting forces are perceived. Viewed as such, the

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strategy process does not start with thinking about strategic assets or capabilities. Strategic reflections are, in the first instance, triggered by the perception of what may or can be done in some perceived strategic field. This field refers mostly to what is believed, explicitly or implicitly, to belong to a firm's domains. This perception may then result in attention to and evaluation of available strategic assets to be used to strengthen or adjust the firm's operations.

The initiation and subsequent diffusion processes of strategic reflections and actions have already been described in many empirical strategy studies, among them Aharoni (1966), Bower (1970), Burgelman (1983), Mintzberg and McHugh (1985), and Quinn (1980). One of the major arguments in this school of thought is that initiation is triggered by the perceptions of individual managers. Strategic reflections are *not* found to be the privilege of some few and mighty, although one usually thinks of top managers or CEOs as the sole strategists. Many managers can be initiating and inducing actions in a business at the same time. In large corporations, one may see a wide variation in the kind and number of strategic actions, depending on the positions of the initiating managers. *The strategy of a firm should thus be viewed as the sum of several specific strategic actions undertaken by distinct parts within the firm.*[3]

This, of course, runs the risk that too many different strategic actions will be in effect at one time. Moreover, most people still feel a need for an overarching strategy that both positions and justifies the diverse specific strategies. This induces top management to declare "the" strategy of the firm or corporation, mostly with some long-term view on internal and external developments. Yet, what is proclaimed as "the" strategy may be quite remote from actual actions, particularly in large entities. Still, a formally expressed strategy does have merit. Mostly, it serves as an umbrella to rationalize actions undertaken throughout the corporation. In recent years, this umbrella is often presented as a mission statement. It refers to some kind of (higher-order) purpose of a corporation and the domain (the product-market scope) in which this purpose is to be realized, together with the underlying corporate values (Campbell and Tawadey, 1990). Some mission statements may be quite specific and, as such, may be susceptible to inflexibility. For a good empirical example of this, we can refer to Langeler (1992). However, since most mission statements are intended to serve for a longer period of time, they tend to be vague. This seems

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logical in that the major aim of mission statements should not be to direct the firm's strategy, but to affect the motivation of participants whose contribution to the strategic actions is needed. By presenting the different parts as belonging all to one firm, some people may feel more committed to support certain strategic initiatives. Furthermore, top managers, especially in large divisionalized companies, do recognize that they are not the only ones responsible for perception of and (re)action to new strategic situations. The ease with which lower-level managers may perceive potential relevant situations (opportunities) then depends on their competence in a specific field and their willingness to search for new information or/and opportunities.

The willingness to search for opportunities may be reinforced by a clear articulation of a firm's mission or competence field. Such an articulation may support the organizational culture and give some ideas about which initiatives are most likely to be accepted at higher management levels. The same line of reasoning may apply with respect to the search for core competences by top managers. Overspecificity runs the risk of inhibiting the building up of new core competences. Overgeneralization may dilute the firm's competitive position.

A firm's strategy can thus be viewed as consisting of many uncertain choices, in the search for a fit between assembled strategic assets (puzzle pieces) and perceived strategic situations. For one specific strategy, the strategic field refers in our view to *the specific context in which this strategy originates and develops*. Strategic assets can only generate value if they fit the external situation to which actors are (re)acting. In this way, the product/market perspective and the resource perspective are combined.

The fit of strategic assets with time

Strategy takes place in a constantly moving and changing strategic field. Quick actions may be necessary. The assembly of strategic assets therefore often occurs without a clear perception of the relevant strategic field. As such, strategy can be analyzed as a sequence of proximate tasks deduced from problems emerging at (relatively) unpredictable points in time.

Several empirical studies have shown that strategy processes are typically fragmented, evolutionary, and largely intuitive (e.g., Quinn, 1980; Smith, Child, and Rowlinson, 1990). These findings weaken the

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assumptions that an organization's strategy inherently refers to long-term objectives and fits the organization's mission, and the idea that analysis (resulting in strategy formulation) can be completed before action takes place (i.e., strategy implementation). These findings, on the other hand, support the argument that strategic assets are both situation- and time-bound and that they fit the period in time and the situation in which they were being activated.

Management's thinking about core competences or strategic assets is normally influenced by the time at which they originated. Depending upon the specific opportunities at a given moment, different core competences can be identified. This raises questions about the usefulness of such an exercise. But, as is also argued for SWOT-analyses, thinking about it is often considered more useful than the eventual outcome of the thinking process.

In our view, then, the formation of *proximate objectives*[4] is a central phenomenon in the strategy process. Some perceived strategic situation (or anticipation of a "new" situation) evokes the formulation of some "proximate objectives" that must be addressed. The use of strategic assets to achieve these proximate objectives is subject to the opinion of managers on the urgency of the need to react to the situation.

In that sense, "the" overall strategy (referred to above as an "umbrella" or "mission statement") can only take the form of fairly vague, long-term objectives, providing some coherence in the large organization. However, these long-term objectives, which may include the articulation of core competences, do not *induce* strategic behavior within a firm. *Strategy is to be considered as a dynamic short-term situational assembly*. Unlike a large stream in the strategic management literature, strategy has much more to do with the short term. Nevertheless, two important comments must be made here:

1. Short-term objectives do not imply, as such, a short-term effect, since strategic actions mostly have a long-term effect. In this sense, strategic actions do concern the long term: Although some strategic action associated with some proximate objective may result in a commitment of strategic assets at more or less short notice, such commitment may or will have a long-term impact. The short-term response of a firm to a suddenly perceived external change may limit or promote future strategic actions (e.g., by means of buying, building up, or divesting some specific asset).

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Proximate objectives, arising from suddenly perceived situations, may thus result in long-term commitments of resources. Moreover, while proximate objectives do not necessarily originate from long-term objectives, the support and commitment of some participants may be much more easily obtained if the proximate objectives can be linked in some way or another to the proclaimed long-term objective or mission of the firm.

2. Many managers (especially higher-level managers) are supposed to have some long-term views on external developments (such as "the future of our biotechnology firm lies in applied research for the pharmaceutical industry"). Such views may have an impact on resource-(re)allocation decisions. The longer the time horizon of such views, the higher the probability of variations in interpretation or perception. Strategies solely based on long-term views carry increased levels of uncertainty and ignorance (Ackoff, 1970) and, with this, a greater risk of failing. Many mergers and acquisitions, reflecting long-term views, have ended in loss or failure (Porter, 1980). Coca-Cola's diversification experience (into the wine and coffee business) is a good illustration of this. Assembling strategic assets for some future opportunities, as perceived by some top manager's "vision," may therefore be an uncertain route to follow. In our view, firm performance benefits more from identifying, supporting, rearranging, and using strategic assets in response to opportunities closest at hand.

Strategy as a situational puzzle game

One more argument remains to be proposed. The variety of contributions that strategic assets can bring in complex and varying situations (all depending on the perceptions of strategic actors) supports our view that strategy comes close to a game—or gamble—situation. From our "constructional" viewpoint, it can regarded as a "puzzle-game." Strategic assets are then the pieces of a complex puzzle, and strategic fields are then varying contexts with elusive horizons. *The fit of strategic assets to some situation is thus essentially a function of the perception of committed actors in the organization.* The more experienced the actor, the more easily perceptions will originate and actions will be

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played. The situational fit in strategy may therefore have to be considered a continuous striving for fit (Hinings and Greenwood, 1988). The driving force for strategy reflections is the constant feeling of tension or incompatibilities in the adaptation of organizations to new perceived (changing) situations. A perfect puzzle will never be achieved. In contrast to some common belief, this view of strategy does not imply a reactive attitude. A perception of some possible future environmental state can also start the strategy process.

This avenue of thought was already explored by Penrose (1959), whereby *resources* render *services*—that is, functions and activities that are most valuable and specialized to the firm and that combine in a jigsaw puzzle of some sort. However, we not only compare strategy with a jigsaw puzzle, in which the different components have a fixed (predestined) place, but consider it as a puzzle game with inherent characteristics of uncertainty and ignorance (Ackoff, 1970). The pieces (assets) may fit in different places, depending upon the perception of possible combinations with other pieces, the perceived situation, and competitors' (re)actions.

Two determining factors for the resulting performance of a firm's puzzle game are: (1) the knowledge of and experience in the strategic field in which the (combination of) strategic assets is used, and (2) the perceptions and movements of the counteracting forces (competitors) in this field. This strategic field is, on the one hand, constantly changing; on the other hand, these changes, inducing puzzle actions, can be perceived in different ways (with respect to the impact on current actions, relatedness with other activities and events, urgency of reaction, etc.). Weick's insights (1995) on sense making in organizations help clarify this argument.

As both observers' perceptions of a certain situation and their judgment of strategic assets may differ, the strategic field where strategy takes place can unfold as participants come and go. Using the puzzle concept, we say that puzzle patterns constantly change with evolving situations. This view calls for flexibility in the pieces deployed. Companies are constantly looking for ways to create value that are superior to those of competitors. If a solution seems to work for a company, competitors will start using it. So the company has to search for a new way of gaining advantage over competitors. Hence, there is no long-term solution, only temporary solutions (Campbell, 1995, p. 144).

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Conclusions

Our framework delivers a realistic description of actual strategic behavior within organizations. At its heart is the situation-driven and action-impelled inclination in managerial behavior, which is induced by some gamble or play with proximate objectives.

Managers' perception of some strategic situation, inducing strategic actions, is frequently the starting point of such a puzzle-game with strategic assets. Conceiving of strategic assets with no link to a specific situation is often a vain exercise. The perception of a situation induces the combination of strategic assets with the ensuing attempt to link or adjust different strategic assets to each other. Such continuous reflection and action result in a learning process that may give rise to new strategic assets. Learning and action go on simultaneously and cannot be seen as separate domains. Strategic assets are retrieved, used, and adjusted in a dynamic puzzle-game.

Finally, believe there are two critical research avenues in the further development of the resource-based perspective. First, skills are a major component of the strategic assets available to a firm. Organizations *per se*, however, do not have skills. An organization derives its skills from the individuals who work for it. A similar line of reasoning has been offered by Akerberg (1989), and Klein, Edge, and Kass (1991). How are individual skills transformed into what is perceived as organizational skills? Motivation and commitment are likely to turn out to be crucial factors.

This results in a second dilemma, as the former statement assumes that skills need to be managed. Who possesses the skill of *managing the skills*? Perceiving and using skills and, more broadly, strategic assets in a relatively successful way depend on the quality of the manager confronted with such puzzle-games. Management talent is likely, as such, to be among the most scarce and significant components of the puzzles in a firm's strategy.

Notes

1. A more comprehensive terminological definition is given in Bogaert, Martens, and Van Cauwenbergh (1994).
2. This has been proposed by Dierickx and Cool (1988) and Barney (1991a, 1991b).
3. This has been argued by Van Cauwenbergh and Van Robaeys (1978), and

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by Mintzberg (1978). It refers to several emerging strategic actions in which a common pattern can be detected.

4. Proximate objectives refer to objectives individuals derive from perceptions of strategic changes in their task environment (see Newell and Simon, 1972, ch. 3). They are close-at-hand objectives that can be of a short- or long-term nature.

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