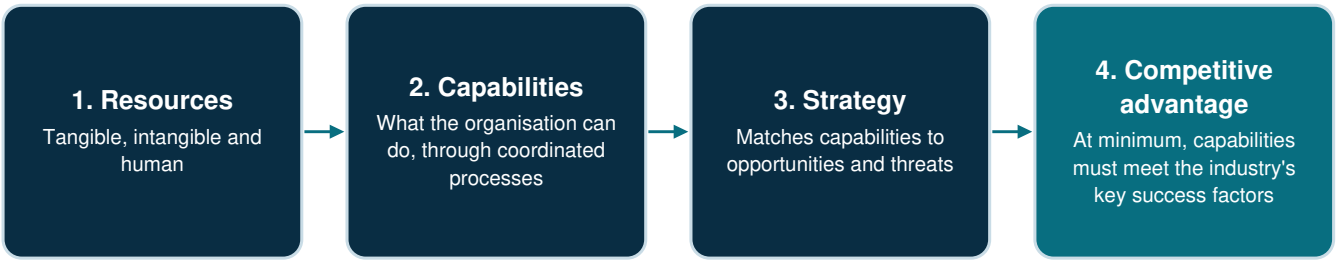
Resources and capabilities

MODULE 3 | 3.6 | STUDENT COMPANION

Resources are the productive assets an organisation owns or can access; **capabilities** are what it can do with them. Three steps: identify resources and capabilities; appraise them for their potential to create a sustainable advantage; then work out the implications for strategy (through SWOT, next lesson).

From resources to competitive advantage



Resources rarely create advantage on their own: they must be combined into capabilities

Three types of resource

Type	Examples	Questions to ask
Tangible	Cash, buildings, equipment, inventory	Could we run the same business with fewer, or more business with the same? Could assets earn more elsewhere?
Intangible	Brands, patents, trademarks, copyrights, trade secrets, relationships, culture	Which ones customers value; why they are often missing from the balance sheet
Human	Skills, knowledge and effort of employees	Competency modelling; hire for attitude, train for skills

Worked example: book value and market value (imagined)

Mostly intangible resources: software and other intellectual property, brand, customer relationships and people's know-how, most of which accounting rules don't allow the company to record.

Item	Amount
Share market value of a software company	$2,000m
Net assets on the balance sheet	$200m
Value not on the balance sheet	$1,800m

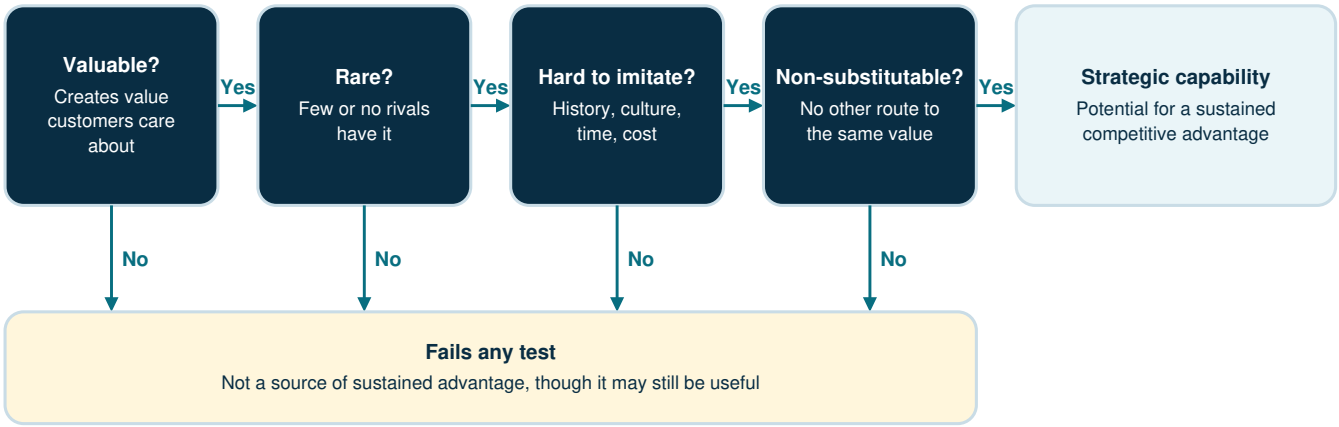
A hierarchy of capabilities



Lower-level capabilities combine into higher-level ones

Finding capabilities: functional analysis (capabilities in each function) and value chain analysis give a systematic survey, but can miss distinctive capabilities that cut across functions. Look for patterns in the organisation's history of successes and failures. **Benchmark** capabilities against competitors: large productivity differences within industries come mainly from management practices.

Four tests of a strategic capability



Applying the tests (imagined)

Resource or capability	V	R	I	N	Verdict
Exclusive rights to the only quarry of a rare building stone	Yes	Yes	Yes	Yes, if no other material gives the same look	Strategic
A cafe's lease inside a busy train station	Yes	Yes	Yes, while the lease lasts	No: delivery apps, cafes near home	Advantage real but less secure

Case note: ASML

The Dutch company ASML is the only company that makes extreme ultraviolet (EUV) lithography machines, which chipmakers need to print the most advanced chips. Each machine costs around US$250 million. Valuable: leading chipmakers can't make their most advanced chips without it. Rare: no competitor makes these machines. Hard to imitate: about 17 years and some US$9 billion of research, plus specialist suppliers such as Zeiss, which makes the mirrors. Non-substitutable: no alternative exists for the most advanced chips.

Sources: Reuters, January 2026; MIT Technology Review, October 2021; ASML company history.

Implications: build strategy around strategic capabilities; close gaps against key success factors by developing, acquiring or partnering for capabilities; and keep investing, because neglected capabilities lose their edge.

Practice questions

MODULE 3 | 3.6 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Tangible, intangible or human?

Resource of Larkhill Hotels (imagined boutique group)	Type
(a) Heritage buildings in prime city locations	
(b) The Larkhill brand	
(c) A database of loyal repeat guests	
(d) An award-winning head chef	
(e) Cash reserves of $8 million	
(f) Long relationships with local wineries and tour operators	
(g) A culture of personalised service	
(h) Staff who between them speak five languages	

Question 2 - Apply the four tests

Resource or capability of Arcfield Engineering (imagined)	V / R / I / N and verdict
(a) Twelve bridge engineers with rare expertise in earthquake-resistant design	
(b) Standard design software that all competitors also use	
(c) A 25-year working relationship with the state roads authority	
(d) A modern office in the city centre	
(e) A patented sensor system that monitors bridge stress in real time	

Question 3 - Explaining the value gap

Imagine **Northwind Software**, whose balance sheet shows net assets of $120 million while the share market values it at $1.5 billion. Calculate the gap, explain which resources are likely to account for it, and why most of them do not appear on the balance sheet.

Worked answers

MODULE 3 | 3.6 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Larkhill Hotels

Resource	Type
(a) Heritage buildings	Tangible
(b) Brand	Intangible
(c) Loyal guest database	Intangible (customer relationships and data)
(d) Head chef	Human
(e) Cash reserves	Tangible (financial)
(f) Winery and tour relationships	Intangible (network resources)
(g) Service culture	Intangible (culture)
(h) Language skills	Human

Question 2 - Arcfield Engineering

Item	Assessment
(a) Seismic bridge engineers	V yes; R yes; I hard (years to build such a team); N likely: strategic, while they stay (protect through retention and knowledge capture)
(b) Standard software	V yes; R no: not strategic (a necessity, not an advantage)
(c) Roads authority relationship	V yes; R yes; I hard (decades of trust); N largely: strategic
(d) City office	V limited; R no: not strategic
(e) Patented sensor system	V yes; R yes; I protected by patent; N partly (other monitoring methods exist): a strong advantage while the patent and performance lead last

Question 3 - Northwind Software

Gap: $1,500m - $120m = **$1,380m**. **Likely sources:** the software and other intellectual property, the brand, recurring customer contracts and relationships, the skills of its developers, and its culture. **Why not recorded:** accounting standards generally don't allow internally generated brands, customer lists or research to be capitalised, and people are never recorded as assets. The balance sheet shows mainly financial and physical resources.