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## **2<sup>nd</sup> Biennial McGill Conference**

# **Entrepreneurship : What are the typical capabilities to create competitive resources ?**

## **A discussion from case studies**

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# Entrepreneurship : What are the typical capabilities to create competitive resources ?

## A discussion from case studies

Alain Asquin, Emmanuelle Reynaud, Marion Polge

### Abstract

It appears that a golden opportunity was missed at the beginning of the 1990's. Several people began to study businesses from the point of view of resources, but very few took the same approach to entrepreneurship (Naman & Slevin, 1993). We believe the reason for this lies in the difficulties to identify the source of and the transformation processes employed for these resources. Yet, the question of the creation of resources is centred around entrepreneurship. An entrepreneur can be defined as someone who *wishes to start-up a business primarily using resources* he believes he controls. He is the actor who finally enacts his dreams after long consideration and chooses a trajectory that partly determines the nature of his corporate purpose. Both of these are characteristics of the "resource-based" approach.

Lastly, an entrepreneur is someone who *lives in hope of finding a sustainable place on his target market*. To do this, he must differentiate, even if his resources are initially relatively standardised. The question of strategic differentiation based on the exploitation of resources with similar sources, is at the centre of the "resource-based" approach (Peteraf 1993). This takes us back to the assumptions of Edith Penrose (1959). The combination and specific exploitation of resources renders such resources specific and determines their value. In sum, by looking at entrepreneurship from the point of view of resources, we underline that the entrepreneur produces resources, the very act of which modifies his competencies and capabilities. The success or failure of a business creation is partly dictated by what has gone before, which influences the present and future. Therefore, history affects the ability of the entrepreneur to maintain a distinctive spiral comprising three essential characteristics: resources, competencies and organisational capabilities.

One of the main theories put forward in the resource-based approach is the assumption that businesses do not determine their strategy based on market demand but rather on their competencies. Competencies enable businesses to replenish basic resources that constitute the very foundation of their success. The business must experiment with market leverage, so that it is not only reactive but also proactive. It must attempt to shape the market by creating a transaction area for itself (Marchesnay, Julien, 1990).

"Leverage", in the words of Hamel & Prahalad, is inspired by an entrepreneurial attitude, taken in its widest sense. However, the entrepreneur does not so much use this leverage as create it. This issue does not come within the usual scope of the resource-based approach and brings on a new dynamic and historical dimension. To this end, literature on the resource-based approach should be added to, to include elements of research into the organisational capabilities of businesses.

Credit must be given to Teece, Pisano & Schuen (1997), and of course Chandler (1992, 1998) for their work on dynamic capabilities, as they not only look at exploiting resources but also the creation of such resources, which plays a determining role in founding a competitive advantage. Such repercussions help to better explain why the seemingly similar corporate purpose of businesses is differentiated at creation stage.

We suggest taking a practical look at the actual situation by studying entrepreneurial projects located in France.

Based on our methodology, we have distinguished three categories of entrepreneurial project, based on their underlying strategy, with each category having distinctive contingencies. We put it to you that the more successful entrepreneurs are those who chose the right key to access the resource – competence – capability triptych. The success of "product" type projects at the creation stage is determined by the control of resources, "technological" projects by competencies and projects centred around "market demands", by organisational capabilities. We suggest that the strategic creation process be relativised, by identifying contingent trajectories that will lead to satisfactory control of all three components: resources – competencies – capabilities.

Lastly, the distinction between adapting to the market and growth via resources would appear to be a thing of the past. Both are now closely linked and play a major role in the success of businesses. The business fluctuates between periods of adaptation and innovation, where "external fit" and "internal fit" constraints are taken into account.

## **Introduction : Entrepreneurship as a resource creation project**

To paraphrase Winston Churchill, recalling the heroic Battle of Britain led by the RAF, never has the destiny of so many depended on the commitment of so few. This parallel may be questionable, but it does serve a purpose for a discussion on two issues that complicated research into entrepreneurship in the 1980's: *heroism* and *collective responsibility*.

Bearing in mind the nuances of the comments of Donal Schon, we may consider entrepreneurs as modern day heroes, or “champions” (Schon, 1963). The problem is that the 1980's created many myths in this area. Of course, these myths could have been used to once again raise the question of businesses, but at the same time, such a myth sets entrepreneurs apart from the norm, thereby reducing the possibility of understanding their actions. Inordinate pressure was created following this elitist vision, which reinforced the vision of an entrepreneur set apart from the norm, doted with extraordinary competencies and resources that others do not have, or someone with a strategic vision (Julien & Bruyat, 1998).

We put it to you that for entrepreneurs, as for the RAF pilots, heroic value is inherent in the action. We are not born “heroes” or “champions”. The entrepreneur is often presented as someone who was destined to set-up his own business whatever trajectory is chosen. The policies governing assistance with business creation favour financial elements, which enable the realisation of a pre-existing intention, rather than other elements which favour the undertaking of a process. However, we put it to you that in actual fact it is the *process undertaken that influences the entrepreneur*.

It could be argued that the RAF pilots had distinctive competencies, something that they did much better than anyone else. That would be to forget that a large number of these pilots did not have many flight hours under their belt, unlike the German squadrons that already had a certain amount of practical experience. Maybe the Britains had special resources or high-performance planes? Although, many historians tend to believe that the Luftwaffe plans had the technical advantage. On both sides, the pilots had a certain degree of motivation: on one side to defend the mother country and on the other to conquer the territory that alone could open the door to the rest of the continent. By relying on their competencies, the RAF pilots strengthened their resources. Therefore, the vital issue would not appear to be the optimisation of resources, but rather their creation using competencies. Yet, the vast majority of studies focus more on the exploitation of resources than on their creation.

As part of the resource-based approach, internal dynamics enable the exploitation of competencies, which optimises resources. At the creation stage, *the question is to determine how the entrepreneur, doted with special competencies, will be capable of mobilising the resources that will enable him to ensure the continuity of his activity and the creation of new resources*. It is under this condition that the entrepreneur undertakes his project which is not entirely given over to market transactions. There would therefore appear to be a dichotomy between resources – competencies, which is at the very heart of literature on resources.

It goes without saying that it would be considered restrictive to limit the creation of a business to the acquisition of resources. By this, we wish to demonstrate that the creation of a business sets-off a transformation process of both competencies *and* resources.

The creation of a business is a process in which resources are combined and developed to become specific to the business, in order to create market “leverage” (in the words of Hamel & Prahalad) which will enable the business to find its place. This implies that we consider that the creation of

a business is a process during which the entrepreneur must structure the specificity of his project, bearing in mind that the continuity of a business involves the eventual control of resources and competencies. Our aim is to understand how these components are acquired and developed by entrepreneurs.

## **1. Resource-based theories: an incomplete foundation for entrepreneurship.**

The resource-based approach provides the entrepreneur with a precise description of the characteristics required to develop core competencies but gives him very little information on how to acquire these characteristics and on their structure.

The aim of this section is to provide an outline of the resource-based approach, but also to highlight the entrepreneurial particularities that render it difficult to have certain characteristics. In short, certain shortcomings will be highlighted that we will try to resolve in the following section.

### ***1.1 Back to Resource-based theories***

There has been increasing interest in strategic analyses using the resource-based approach all throughout the 1990's. Several studies focus on the various competitive advantages (Barney 1986b, Barney & Hansen 1994; Rowell & Dent-Micallef 1997, Hunt 1997) or the resulting sources of diversification (Chatterjee & Wernerfelt 1991, Markides & Williamson 1996). Yet, the manner in which these studies are developed leads to a certain amount of confusion, with a polysemy of terms such as "competencies" or "resources", well explained by Métais (1997).

Accordingly, we feel at this stage that we should explain the various notions employed in order to render the *resource-based approach more operational* (Wernerfelt, 95).

The notion of resources denotes the elements necessary to the operation of a business. On his discovery of the resource-based approach, Wernerfelt (1984) put forward the following definition, which is now widely used: *the resources of a business at a given time may be defined as tangible or intangible assets belonging to the business.*

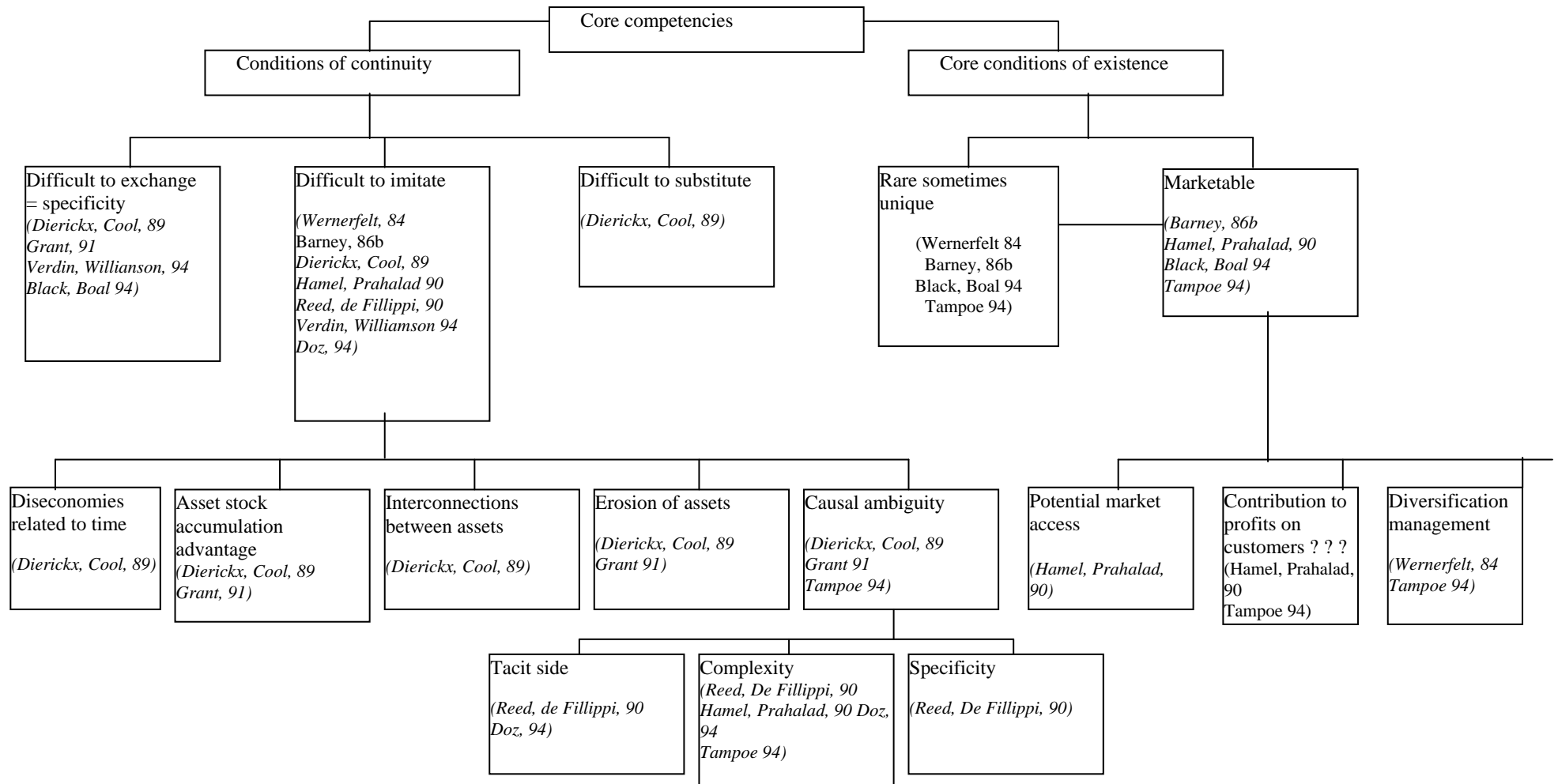
However, this definition does not include the business' internal potential: there is no interest in how this is exploited (Penrose 1959). Penrose (1959) states: *services rendered by resources depend on the capabilities of those using them; however, the development of such capabilities is partly determined by the resources that are used. Together, both elements create a production opportunity for a particular business.*

The notion of competencies is more complex and was addressed very early on (Selznick 1957) under the theme of distinctive competencies (area in which a business excels). Miles & Snow (1978) and later Snow & Hrebiniak (1980) showed that the ability to develop these competencies varies from one organisation to the next, and even within an organisation, from one manager to another. It was not until the Hofer & Schendel study (1978) that a connection with resources was made. Today, even though certain authors still make a link with distinctive competencies (Hitt & Ireland, 1985; Peteraf 1993), most of them address the issue from the point of view of resources. Competencies are therefore a distinctive combination of resources. Thus, for Hamel and Prahalad (1990): *core competencies constitute the collective learning of an organisation and, more particularly, how to co-ordinate various technical skills and integrate multiple technological advances.* Reed & De Fillippi (1990) provide a more general definition: *competencies are the result of how a business uses its internal skills and resources in comparison to its competitors.* In terms of competition, competencies are now considered to be the source of competitive advantage (Tampoe 1994).

Core competencies, a source of competitive advantage, deserve special attention given the extent to which young managers make a special effort to create a wide gap between their capabilities and that of their competitors. We have identified those characteristics guaranteeing the existence of competencies and those ensuring their continuity. Please refer to the table below.



## *Core Competencies*



As all studies into this area define competencies as a distinctive combination of resources faced with competitors, they have been integrated, not only those pertaining to core competencies



## ***1.2 - Organisational competencies: from generic to specific resources***

The resource-based approach would appear limited, beyond its use in identifying competencies. It sheds no light whatsoever on the source of competencies, which it assesses to identify what kind of future a business can aspire to. Yet, the future does not only depend on the present: the past also plays an important role, something we should not forget.

Yet, the link between the past, present and future can be opportunely created by the organisational capabilities of the business. That is what we shall attempt to demonstrate in this section.

After demonstrating the importance of enhancing the resource-based approach, via organisational capabilities, we will define what these capabilities are and look at their source.

### ***1.2.1 Organisational capabilities as a dynamic addition to resource-based approaches***

The issue of entrepreneurship is more often than not focused on the entrepreneur's ability to obtain the financial resources that will enable him to effectively exploit his competencies. General consensus very often attributes the failure of a "good" project to the inability of the economic system to provide potential entrepreneurs with the resources they require.

However, the failure of good projects, as with the success of other, let us say less distinctive projects, should not be examined in purely financial terms. The potential or new business may not only suffer from a lack of competencies but also a lack of organisational capabilities to exploit such competencies.

This issue is addressed by Fujimoto (1999). For him, there is every interest in looking at the dynamics of resources using an evolutionary table of analysis. The diversity of businesses, and therefore the conditions of success or failure, depend on the specific systems implemented to build and renew the system of competencies (Dosi, Teece & Winter, 1990). According to a set of institutional studies into competencies, summarised by DeGregori (1987), the question is to understand how competencies are formed, as they are neither data, nor natural, but attributable to interaction between individual people.

Organisational capabilities constitute a vital factor in resource-based approaches, the advantage of which is demonstrated by Chandler (1990). In his most recent work, Chandler considers that entrepreneurs that succeed can be those that are able to make a three-fold investment, in production, marketing and managerial competencies. An entrepreneur (from the French verb *entreprendre*: undertake / start-up) is not someone who simply launches an innovation on the market, but also someone who knows how to implement an organisational structure, a system capable of developing resources. The historian places at the centre of success the ability of entrepreneurs to develop strong organisational capabilities, which enhance the tenability of their growth within the context of ever changing technologies and markets. Technologies only offer opportunities. It is up to business managers to identify these opportunities and transform them into tenable advantages (Teece, 1993, 211). For Fujimoto (1998), therefore, organisational capabilities characterise successful businesses. Such business do not stop at being competitive at a particular moment in time, but rather build up their capabilities to develop their competencies throughout time.

We will forget the dicta on the environment as any attempt to adapt is de-synchronised due to response times and environment evaluation errors.

It is the very understanding of the necessity of this non-alignment???? that has lead certain researchers to ponder over the relative time it takes for a business to grow and adapt (Stalk, Evans & Schulman 92). However, this vital consideration goes beyond the scope of management sciences, drawing attention from industrial economists, for example (Adams, 1992). This gap justifies the fact that the formation of resources is performed in anticipation, based on a strategic intention, rather than afterwards following a jolt in the market (Gaffard 1995). For a business to

succeed, it is therefore necessary to have an entrepreneurial attitude, i.e. to be able to anticipate general opinion, guess the direction of history and even change the destiny of the market. We could therefore define the entrepreneur as someone who believes he is capable of assuming this gap. At the creation stage, someone who undertakes to build a dynamic system which would enable him to determine resources beforehand, or rather without market stimulus having any part to play in it.

### 1.2.2 Characteristics of organisational capabilities

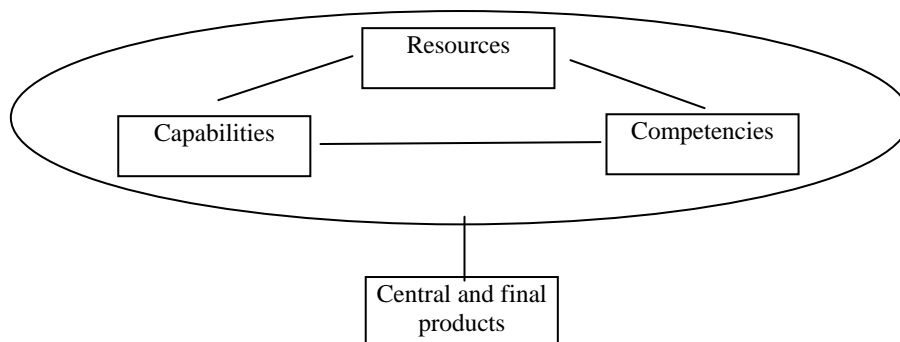
As we have seen above, capabilities form a strategic architecture which structures the distinctive resource combination, and therefore the transition from peripheral competencies to core competencies. Thus, if competencies constitute the combination of resources, organisational capabilities are connected to the implementation of such resources. Competencies enable the entrepreneur to generate an idea, but capabilities can put this idea into operation. Capabilities are similar to the organisational routines described by Nelson & Winter (82) and primarily group together managerial routines.

Organisational capabilities are defined as *activities supporting the implementation of competencies* (Métais 97, p 59). However, they also enable the entrepreneur to *modify competencies* (Métais, *ibid.*, p 60).

The development of core competencies, initiated by capabilities, is mirrored by peripheral competencies. This development favours a “centripetal approach”: in other words, the translation from peripheral competencies to core competencies. There is a lot less literature on capabilities than on core competencies. Their identification is therefore less mapped out and it is impossible to pinpoint the dimensions. That is why we shall only retain the five capabilities identified by Stalk, Evans & Shulman (92, p 63):

- *Rapidity: ability to quickly satisfy customer needs and incorporate new ideas and technologies into products*
- *Quality: ability to manufacture a product that satisfies consumer demands*
- *Sharpness: ability to have a clear vision of the competitive environment to be able to satisfy the changing needs and desires of consumers*
- *Agility: ability to adapt to different markets simultaneously*
- *Ability to innovate: ability to generate new ideas and combine existing elements to create new sources of value.*

The combination of “classical” approaches to resources and the above theories based on the evolutionary approach lead us to the following triptych:



The general nature of competencies and the existence of capabilities to exploit these competencies will result in a series of competitive advantages for the products offered by the entrepreneur.

### ***1.2.3 Origins of developments in organisational capabilities***

According to the actionnalist view we are developping the issue for the entrepreneur is to implement, as quickly as possible, an organisational structure that will enable a favourable trend in learning.

The deciding factor in the success of the business is not whether it is created with a particularly specific resource, but rather whether the entrepreneur is able to structure interactive, or learning areas. The creation of a business would therefore be approached as the creation of an organisation, in other words an off-market combination of exchanges between agents that have undertaken a learning process. If the entrepreneur wants to make a place for himself on his target market, he must eventually produce resources that are sufficiently rare to attract customers, and sufficiently specific to his business so that he may sustainably appropriate them.

If we consider the business as an articulate system of competencies, a discussion on the dynamics of the business must include the particularity of the dynamics of competencies.

A business aims at sufficiently increasing its competencies in order to keep up with market developments. However, this business is restricted by its "ability to absorb". It is limited as it is capable of understanding beforehand. The ability of a business to evaluate and use external competencies depends on the knowledge acquired in the area beforehand. This knowledge enables the business to recognise the value of new information, to digest it and to apply it as a sales means.

The ability to absorb does not depend on a specific individual, but rather links between a mosaic of individual competencies (Cohen & Levinthal, 1990).

As a result, a business is restricted to the accessible competencies it already masters. Its trajectory therefore depends on competencies (Levinthal, 1994). This dependence is often addressed in works on resources under the term "*competence heritage*".

Knowledge is created via a learning process and is not simply based in the mind of individuals but also in the manner in which the market of such individuals has been structured by this activity. The market, in turn, shall affect learning (Lant, 1998). This recursive relationship, developed by Edith Penrose, is the origin of organisational capabilities.

As suggested by Chandler (1998), the learning developed in a business will be different from that acquired in another context. Likewise, Tyres & Von Hippel (1997) show that during the initial development of a new resource<sup>1</sup>, the capability of the agents within the business to find solutions and adapt to constraints, will depend on the characteristics of the organisation. Learning is then considered as "situated", in other words, it is partly orientated by the organisational context in which it develops.

A basic link is therefore established with approaches to knowledge that consider it as a form of institution. Thus, *the concept of situated learning signifies that learning occurs in a specific situation, a context. Those persons not within this context will probably not be able to take on this knowledge. Institutions, and the measures they implement within different contexts, provide the environment in which learning occurs. Persons situated within an organisation tend to learn something different from those situated in other organisations as each one has different forms of institutions which guide, liberate or restrict the actions taken by an individual* (Van de Ven interviewed by Asquin 1999a).

Organisational context as a guarantee of distinctive learning is the origin of organisational capabilities. In this way, not only businesses will be able to develop distinctive competence trajectories but these trajectories may differ using absorption capabilities.

## 2. - Empirical analysis

The entrepreneur will influence the destiny of his business and initiate his trajectory, as he is situated within the heart of the dynamics of resources.

We have defined three main methods of initiating this trajectory, which we will verify by analysing a certain number of case studies in the Languedoc-Roussillon region.

### 2.1 *Proposals*

There is not one competence building process but several. We will attempt to identify these processes in an empirical analysis. Based on the many contradictions found in the literature, we believe we can safely say that “strategic” approaches depend on contingency factors. At this exploratory stage of our work, we will only look at one contingency factor: the strategic formulae (Martinet 82) selected by a young business. For this, we have selected the three basic strategic formulae that are particularly appropriate during the entrepreneurial stage:

Product anchoring  
Technology anchoring  
Market anchoring

Based on the author’s theory, the winning strategic formula is one which, using a given anchorage, then moves on to the remaining two. In this way, the first type of entrepreneur should develop his business around a selected product(s) *by branching out to new markets and/or by integrating new technologies* (Martinet, 98) while the second type should incite his business to multiply the application of technologies that it already has. Lastly, the third type would satisfy specific market demands by launching new products and technologies.

Based on the chosen strategic logic, the existence of core competencies would appear more or less basic. Going back to the initial theories of Hamel & Prahalad, the exploitation of core competencies is coupled with the revival of strategic thinking and is therefore resolutely proactive. Since then, various authors have been advocating complementarity with traditional approaches and only see core competencies as a coherent growth tool. While the proactive approach requires the existence of core competencies from the outset, market trend makes do with peripheral competencies but requires the existence of strong organisational capabilities and, in particular, strong learning capabilities in order to understand the market and adapt to changes.

Our general proposal is therefore as follows:

The competence / capability link varies depending on the selected strategic formula.

More specifically:

1. Core competencies are a prerequisite to the success of a technology anchored on strategy. The entrepreneur’s ability to understand the market as it is, is the guarantee of his success. Indeed, as suggested by Martinet (98), strategy must at least include these three variables (product, technology, market). Technological developments usually go hand in hand with the development of applications. Nevertheless, the ability of high-tech companies, in particular, that are too firmly centred on production, to adapt to a market, is usually lacking. This capability can make all the difference between success and failure.
2. The market anchored strategy is the prerogative of the champions of capabilities. Of course, future coherent growth is favoured by the formation of core competencies, but a SME can found its success on simple peripheral competencies (Simon, 98). Indeed, by working on a

market segment that is not covered by or attractive for competitors of a larger scale, or by being flexible, the business can build a competitive advantage that is enough to make it successful. This proposal is a little out of phase with the resource-based theory but would appear to be in line with the empirical tests performed by Simon (98).

3. The winning alchemy would appear to be the least mapped out for the product anchored strategy. Having a rare resource would appear to favour success, thanks to the originality of a product. However, competence heritage (Métais 97) which guarantees good product reputation, may be as much of a distinctive key to success for conventional products. Of course, we would dare to suggest the superiority of strategies that aim, in the medium term, to base the positioning of the product on core competencies.

These proposals will therefore be tested by looking at concrete examples of companies in action.

## 2.2 *Discussion from case studies*

In order to have a case study situated in a clearly defined region (to free ourselves from the control variable), we have chosen the case of a French local daily newspaper, *Midi Libre*. We now have some thirty case studies in the Languedoc-Roussillon region. This section analyses the conditions of success or failure during the initial growth stage.

The above mentioned anchoring strategies can be clearly identified, with:

- 11 cases where the strategic formula is based on technology
- 8 based on the market
- 7 based on the product.

### 2.3 *“Technology” anchoring*

This group is homogenous and comprises high-tech SMEs (with one exception) with core competencies. The difference between success and failure is primarily attributable to capabilities and, in particular, the ability to understand the market.

First and foremost, it would be interesting to look at the difference between a business that only has peripheral competencies and the others. It is rather striking to note that the latter is the only type of business with standardised technology. The strategy of this type of business is clearly different from that of high-tech SMEs. In this case, this particular small cement business was built on the basis of a competitive advantage founded on its reliability and flexibility within a local network. It therefore satisfies specific customer needs, in particular for small construction sites (e.g. cement supports for arrivals and departures boards for a transportation company based in Perpignan). This business only has peripheral competencies but optimises them thanks to excellent quality and sharpness.

Within our study, the strategic behaviour of high-tech businesses is always founded on core competencies, themselves based on rare resources. There are many examples in this group. For instance, *Téledétection et Traitement d'Images (TTI)* has a highly specific technology which enables it to offer a topography system with laser aerial shooting. Assets are interrelated (such as the laser and telemeters) to form a core competence. There are even particular cases where the competence is highly specific and very difficult to imitate but too rare to be seen and therefore marketed: this is the case of a pharmaceuticals business specialised in artificial nutrition which, despite its position in a strategic niche market, is finding it difficult to make itself known.

These high-tech businesses set themselves apart by their organisational capabilities. Some of them have these capabilities, which constitute the key to their success, while others do not, in this case, their idea does not go beyond the design stage.

Certain businesses have both core competencies and organisational capabilities. Thus, Sodiélec, specialised in communication by UHF via directional radio links, has core competencies that are highly inimitable, as well as wide capabilities, meaning it is able to combine:

- Rapidity: they say they are "*impressive on deadlines*",
- Innovation,
- Quality: their products are ISO certified,
- Sharpness: they are "*aware of changes and the increasing complexity of the market*".

TTI has a proactive approach thanks to wide capabilities. Today, it markets satellite images for flood forecasts (e.g. plan of a motorway), soil classification, desert movement, etc. This business is successful due to its specific knowledge as well as what it does with this knowledge: quality, sharpness, etc.

Others, such as Biophyderm, a product tester for large cosmetic groups, relies entirely on its flexibility. The fact that this business has organisational capabilities facilitates the exploitation of its competencies.

Businesses that encounter major problems in marketing the applications of a mastered technology, often do not have organisational capabilities. This is true for Vigicard (a type of mouse which provides the cardiogram of a patient over the telephone) which has not yet been launched despite the fact it should provide enormous freedom to heart patients. The designer forgot to resolve the fundamental problems of responsibility and paying the cardiologist at the end of the line. Likewise, Occigerm which has discovered a procedure to transform medical waste into ordinary sterile waste, did not take account of the necessary conditions to satisfy the market and, namely the necessary capital intensity.

While the presence of core competencies would appear to be linked to the existence of sophisticated technologies, the success of such technologies is determined by organisational capabilities.

#### **2.4 "Market" anchoring**

The conditions under which this group has grown appear particularly eclectic. No particular business held core competencies initially, but, while certain built up such competencies, others focused on a specific segment and are developing a specific organisational capability. Others again, focused on being over-flexible...with varied results. Nonetheless, we have identified certain key analysis areas:

- When the market is competitive and sophisticated, core competencies are a deciding factor.
- Standard market demand can be satisfied by peripheral competencies.
- In the absence of competitors, even a relatively sophisticated market can be satisfied by peripheral competencies, once the business has flexibility capabilities.

The sub-group which formed these core competencies comprises two businesses, one of which is specialised in consulting and the other situated half-way between agriculture and tourism. Both, however, satisfy the overall needs of a target customer.

The first entrepreneur satisfies the needs of senior management of SMEs: as his working hours as a year-round consultant, he occupies various roles, from a head-hunter of CPAs to a consultant on strategy or corporate recovery. The manager, himself is unable to define his profession: *there is no specific title for my profession. Business managers call on me when they think there is an emergency.* The service offer that can satisfy this type of need is therefore eminently sophisticated.

In order to satisfy it, the business chose the following strategic trajectory:

1. Initially, the business only had a peripheral competence, which corresponded to that of a chartered accountant with business experience. However, it also had numerous capabilities. As defined in the theories of Stalk, Evans & Schulmann, sharpness, rapidity and quality were all present. The entrepreneur was very familiar with the network and the problems encountered by SMEs and managed to rapidly satisfy demand by offering an all-round, renowned, quality service.
2. However, this offer needed to rapidly move toward core competencies in order to maintain a predominant position. The business decided to implement an interconnected asset system to satisfy customer needs. This entrepreneur implemented a monitoring system described in a letter to customers containing the main statutory and tax information. He also offers an on-line service for urgent questions.

The second business satisfies the needs of rural tourism: a couple based in Aveyron in the Causse de Séverac combines production of farmhouse cheese, self-catering cottages and camel rides. Here again it is necessary to satisfy the overall needs of tourists in a rural context. Unlike the previous example, the strategic trajectory of this business was not deliberate:

1. Initially, the couple had specific resources such as the Pérails???? farmer but had not combined them into core competencies. These resources were marketable but not imitable. Rapidly, their competitors acquired these resources and the market took on such volume that capital intensity bypassed the possibilities and aspirations of this neo-rural couple. During this initial experience, the couple did not have the capabilities to replenish (or protect) their competencies. Nor did they have the sharpness or agility required.
2. Little by little, however, the couple formed the conditions of their success. They managed to create synergies that were not as easy to imitate. This resulted in a more sophisticated offer, combining farmhouse cheese production, providing a traditional aspect, country cottages for tourists and camel rides. Their sharpness improved, and the couple is now able to understand the needs of their customers and satisfy them with an all-round offer.

Another sub-group plays its game well by targeting a specific market segment. Of the three businesses making up the sub-group, one provides secretarial services, another is involved in the rubber business and another in IT. Together they maintain a strong relationship with their customers thanks to the implementation of peripheral competencies on a local market. The local factor is a trump card insofar as these businesses favour flexibility and rapid response: this has made them highly successful in rapidly serving a local market.

Here, market needs may be more or less sophisticated but are satisfied by a simple formula in the absence of competitors: success is not so much determined by holding distinctive resources or competencies, but rather by positioning oneself on a niche market not targeted by other businesses. This approach enables more sustainable success but does not enable the business to build entry deterrence.

The third sub-group, anchored on a wide market has peripheral competencies and is more eclectic. Two businesses, the first looking to satisfy the agro-industry equipment market and the second involved in the steel industry, have been going from restructuring to restructuring and failure to failure. Neither appear to have a vital capability: understanding market changes. This has less to do with a lagging behind factor than a failure to acknowledge the biased advantage held by large groups.

The only non loss-making business in this sub-group is involved in subcontracting. An unemployed secretary and electrician bought the production tool of their former employer and now process the orders (electronic cards) of certain customers. Their contractor supplies them with almost all materials, which facilitates treasury management. They are backed-up by a

specific organisational capability: flexibility, thanks mainly to the hiring of seasonal workers. This is a typical case of a standard market demand being satisfied by peripheral competencies.

Here once again, sophistication would appear to go hand in hand with core competencies, while standard markets are satisfied by peripheral competencies.

### 2.5 "Product" anchoring

The winning formulae for product anchoring vary and differ somewhat from the previous cases. Of course, the sophistication (or lack thereof) of a product is one of the key understanding factors in the strategic trajectory, although there would appear to be several explanations for standardised products. We have identified four micro-groups:

- The first where the technical dimension of a product is important and the business competencies core.
- The second where the product is standardised but where common resources have been combined to create core competencies.
- The third where the standardised product makes do with peripheral competencies backed up by a strong competence heritage.
- The fourth where the standardised product and peripheral competencies suffer in the absence of organisational capabilities.

We would point out that our sample does not include "product" anchored businesses, offering standardised products with peripheral competencies and organisational capabilities.

The first group comprises a single business offering products with a rather high-tech aspect. In this way, even if the fundamental strategic criterion remains the product, this formula is close to the technological formula. This Catana specialist, world number two in top of the range catamarans, started his career with a technological formula by implementing his knowledge of composite materials in the construction of climbing walls. Only after this experience did he specialise in the construction of catamarans where he now has great renown. Over the years, he has enhanced his knowledge around this unique product. He now has a competence which is both marketable and difficult to imitate. The marketable nature of this competence is mainly attributable to his wide organisational capabilities: apart from innovation and quality, Catana has sufficient capital intensity to satisfy the demands of different markets and better understand customer needs.

The second group comprises two businesses anchored on the product formula, that have developed core competencies from standardised resources.

Mr. Chekroun developed a network out of the jewel business, traditionally a family-run business. In order to do so, this entrepreneur gradually formed core competencies by interconnecting various standardised resources, knowledge of the jewel trade, marketing (Mr. Chekroun has a management doctorate), IT, training centre, etc. Several innovations have their origin in this combination. As early on as 1982, customers were able to consult a computer in store windows to find out information on jewels. In 1992, he even dared to venture into 18 carat gold jewellery which, although it was still prestigious, became more affordable, thus favouring impulsive buying. He also has organisational capabilities: a computer tool enables him to successfully manage purchases and deliveries. This entrepreneur has been quoted as saying: *a traditional jewellers only reacts after one year. Our stock turnover is five or six times quicker.*

The case of Majar SA is somewhat similar. This business was taken over in 1986 after winding-up and is specialised in agricultural equipment. The product was initially highly standardised as were the resources. Little by little this entrepreneur built up core competencies by combining three non specific resources (knowledge of agricultural equipment, design and miniaturisation). He now offers top of the range equipment for what he calls "Sunday gardeners". This turnaround



was only possible thanks to wide organisational capabilities and, in particular the early vision of a gardening trend with high income customers.

The third group comprises a single business. Specialised in the manufacture of chairs (traditional or designer), this business only has peripheral competencies but optimises them well thanks to a strong competence heritage. This heritage enables it to benefit from a well-established reliable reputation.

The last group comprises three business without core competencies or organisational capabilities. The case of Xéris is the more caricatured. This manufacturer of wrapping paper wanted to sell its creativity. However, this competence is so easily imitable that even prototypes are copied. The market is then flooded with followers that have no creativity but have sufficient organisational capabilities to serve customers quicker and at a lower price.

The other two companies are in a less dangerous situation but once again neither have core competencies nor organisational capabilities.

Verfeuille SARL, involved in the transformation of chestnuts barely attempts to adapt to the market. Moreover, it is in direct competition with Italian, Spanish, Portuguese and Turkish chestnuts which are often harvested and transformed at a lower cost. Today, it is gradually attempting to position itself on a strategic niche market of “sustainable growth”. Indeed, as this transformation can be qualified as biological and as the partners are concerned by working conditions, they believe they can gradually market this specificity.

Le Fédou SARL produces farmhouse cheese which it found very difficult to optimise at the creation stage. Little by little, it became more aware of customer wishes (switch from round cheese to a block of cheese) and hired a sales agent. At this stage, it is not yet possible to state that these business have core competencies or organisational capabilities but they are gradually growing.

## **Conclusion**

Resource-based approaches are essential to the understanding of the process of structuring young businesses, and the various qualities implemented by entrepreneurs, be they related to resources, competencies or capabilities. We have limited the scope of our research to suggesting that the dynamics of a business are probably formed by a spiral between three characteristics, but that access to each characteristic can be made in a different order, which we believe is a function of a vital contingency factor which constitutes the entrepreneur’s strategic formula.

Strategic formulae represent the appropriate key to understanding that core competencies advocated by the resource-based theory are not always necessary to the success of a new or young business. These competencies can be produced afterwards, but only if the entrepreneur knows how to implement the aforementioned spiral.

Sophistication (of technologies or markets) would appear a fundamental point in explaining the presence or absence of core competencies. On the other hand, standardised technologies or markets make do with peripheral competencies insofar as the business has sufficient organisational capabilities to exploit them.

However, it is important to remember that in the majority of the above examples, there is very low competitive market pressure. Who can tell whether in a more aggressive market, core competencies and organisational capabilities would not be necessary as suggested by certain authors? It is striking to note that the entrepreneurs in our sample with a strong position on an international market have the winning triptych! Does that mean that local success is satisfied with a simple configuration while a leading position requires the presence of specific resources, core

competencies and the capabilities to exploit them? Is local experience too recent to be able to genuinely conduct research into other components?

We find ourselves faced with a dilemma. The need for a dynamic approach to study entrepreneurship cannot stop at statistical data. We are not in a position to provide a conclusion on our assumptions. They have neither been refuted nor entirely confirmed, surely as the issue requires a more lengthy study into entrepreneurial projects. We propose that we undertake such a study in order to contribute to a better understanding of entrepreneurial processes.

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