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Using IT-CMF to build Competitive Advantage

Abstract

Developing a competitive advantage, for any organization, is a key business imperative. Without some form of competitive advantage it is very difficult to compete within today's highly dynamic market place. In order to develop competitive advantages organizations must focus on identifying and building their core capabilities. As technology's influence is now pervasive throughout every aspect of organizational life organizations must consider the role their IT based capabilities play in shaping their competitive capabilities as a whole. This briefing will look at the importance of identifying and managing IT capabilities, and how the IT-CMF can help achieve this.

KEYWORDS: competitive advantage, competitive capability, competitive business environment, disruptive technology, competitive landscape, capability-based view, IT-CMF, transformational change,

Introduction

The competitive landscape is changing. In recent years developments in technology, and IT's increasing level of adoption at a global level, has seen many traditional barriers to market entry weaken or fall away. This has created opportunities for newer, smaller, agile, and innovative organizations to gain a dominant position against many well known, and well established organizations. In fact this new dynamic market place has seen the demise of many of these previously perceived 'untouchable' organizations. The message is clear – *'what made you a success in the past may not be what makes you a success in the future'*.

So, the question is *'How do we stay competitive, if we cannot fully rely on our past successes to show us the way?'* Well, there are many tools available that can help management teams assess opportunities, threats, etc., and analyse the business environment. These tools are well known and understood (SWOT, PESTAL, TOWS, Ansoff's Matrix, the BCG Matrix, etc.). However, understanding what is influencing markets, and what potential market opportunities exist is only part of the picture. Organizations also need to understand *how* they are positioned to meet these competitive challenges head on – and win.

A Question of Perspective

How do we, as organizations, assess our ability to meet these constantly changing competitive challenges? Traditionally we view our ability to meet new challenges based on our past history. This is a natural starting point, but one that can deliver the wrong message in the new business paradigm. The reason that taking an historical view of performance is, on its own, no longer an adequate basis for strategic decision-making is because of the dynamic nature of our operating environments. As an example consider the commercial banking sector in the early 1990s. Customers could come into the high street branch during their working hours to negotiate a loan, overdraft, or some other financial service. In terms of barriers for new entrants into the banking sector the existing commercial banks held a dominant position. The banks controlled just about all aspects of the customer's engagement. Roll on to more recent years and customers can now pick up financial products and services in their local post office, and more conveniently, in their supermarkets; products for which they no longer need to queue in their high street bank branch. Customers now have easier access to financial products and service, on their terms, and from a much broader range of providers. There are two important points worth noting:

- Over a few years the banking sector was opened right up to competition from new and existing financial institutions all over the world. The main catalyst for this dramatic shift in competitive practice was *technology*.
- In terms of responding to these new competitive offerings the problem was not the existing banking processes in themselves; instead the problem was a lack of understanding of how core processes needed to change in order to meet the emerging needs of both the customer and organization. It was the inability of the traditional banking institutions to identify what needed to change, and how to effect that change, that caused some banks to lose their dominant position in the commercial sector.

These points are not unique to the banking sector. In fact many similar examples can be easily found across all sectors of industry. However, an interesting development in this particular example is the fact that although the banking sector was very traditional, it realized the important role technology played in the operation and governance of its business even before the advent of the Internet. Consequently many of the banks were able to respond to the challenges of new entrants into the market. However, across other industry sectors many well-established organizations have not reacted so well to the challenges created through recent developments in technology. These include Book Retailers (online versus in-store sales), Home Entertainment (online versus offline video rentals), Music (downloadable versus physical media), Newspapers (online versus print), Travel (travel agents versus online bookings), Retail (online shopping versus in-store experience), Academia (physical versus virtual delivery of courses)... What has happened in all of these industries is the growing realization of the need to understand and manage technology driven capabilities in a way that allows the organization to meet changing market forces. A point in case is Apple Inc. During the 1990's, Apple products served a relatively niche market with a relatively small, but loyal customer base. However by understanding how important their user experience design capabilities were around hardware and software, they have been able to develop a significant and sustainable competitive advantage. That said, the advantages, and subsequent market share they have gained around their phones, laptops, desktops, and MP3 devices are now being eroded by competitors' eager to replicate the Apple success story.

The problem is these disruptive winds of change show no sign of abating. The

disruptive nature of developments in technology is increasing in influence, and many organizations are running hard to keep up. This level of uncertainty surrounding what technology can, and will enable organizations to do in the near future is pervasive across all sectors. No one escapes the impact of technology.

A Question of Capability

This uncertainty – in terms of how the competitive landscape will develop, and how technology will continue to be a disruptive force in forming this landscape – will, and should, shape the focus of all those concerned with their organization's strategy. Furthermore, such focus is not just for those in IT organizations, but also for all those who use technology as an enabler for their business.

Developing capability is a key component in developing competitive advantage. However, organizations may still have limited resources in terms of finance, skills, and technology. So what should be their focus?

The answer is not as difficult as it may first seem. In order to build competitive advantage, organizations should focus on developing those capabilities that are unique to them and that will differentiate them from their competitors. If the capability is difficult to copy it further enhances the advantage as the competition will take much longer to close the competitive gap.

What are our Competitive Capabilities?

So, the next question is what are our competitive capabilities? Well, these will differ from organization to organization. However, in terms of the capability landscape the IT-CMF gives organizations a clear and descriptive overview of the spectrum of IT related capabilities shaping performance. How good you are (level of maturity) with each capability will depend on a number of things; operational focus, leadership and management styles, external market forces, historical positioning within the market, legal obligations, current resource level, performance figures, new product and services programmes, overall strategy... the list goes on, and the mix of these influencing factors will be different depending on the organization in question.

This organizational self-awareness is a characteristic of higher levels of capability maturity. The ability to continually sense and respond in a proactive manner to changing environmental conditions is where organizations really start to see value-add particularly in terms of organizational performance. Organizations that can develop a high level of maturity around a

unique capability are in effect directly shaping and building a competitive advantage.

Assessing the value of your Capabilities

This, in itself, is an important organizational capability. We traditionally look to our processes as indicators of capability, but this is only an indicator at a low level of capability maturity. Processes, and the support structures (people and technology) that wrap around them, may have worked well in the past but may now not be fit for purpose within a new competitive landscape. This may give the impression that a particular IT or Business function responsible for those processes is no longer required. However, by taking a capability view the organization may re-evaluate how it utilises IT in terms of its future potential capability; a necessary perspective when planning for future success. It is worth noting that competitive value is not in a particular process *per se*, but in the ability to continually evaluate, modify and develop processes in line with changing organizational need. This capability view forces the organization to look at not only what they do now, but what capabilities they need for the future.

Where an organization can develop a high level of maturity around a unique capability this can directly shape and build a competitive capability. In terms of assessing the capability landscape the IT-CMF is the only framework that provides organizations with a holistic view of their IT related capabilities.

Transformational Change: Building Capability

The IT-CMF can be used at many levels. It can be used as a reference framework for organizations in order to monitor and continually improve their key capabilities. It can also be used to evaluate an organization's maturity and then benchmark that level either internally or externally. However, these are mechanisms by which the framework can be used. What is more pertinent is why the framework should be used.

As already mentioned the need to understand what capabilities are important to your organization, and, therefore which ones require development is vital. Knowing this will help shape both strategic and operational discussions around resource allocation, and the implementation timelines of strategic objectives. By using this approach the IT focus will shift from one of 'cost management' to one of 'strategic enablement'.

Implementing change in this dynamic hyper-competitive environment is now a common factor of organizational life. Transformational changes have the biggest impact on an organizations ability to compete, and technology is playing a significant role. The success of these changes is predicated by an understanding of the change in capability the organization is looking to achieve. Many IT led projects have been heroic failures – we can all identify projects in this category. The technology has delivered what it said it would, but the improved capability that was implicitly expected never materialised. And because the capability never improved, any competitive advantage gained through technology would be short lived – considering the level of funding being allocated to IT dependant projects if they cannot deliver a competitive edge (either directly or indirectly) organization's must seriously consider the project's long term worth to the organization. To that end understanding an organizations ability to plan, fund, execute, and reflect on their ability deliver transformational change through technology becomes key to the on-going competitive positioning of the organization.

Concluding Remarks

The *before* and *after* aspect of understanding capability within a transformational change environment is an excellent method of assessing potential partners for on-going collaboration. Do potential partners have the necessary capability to allow your organization to build a competitive advantage? Furthermore, is the potential partner's capability...

- ...worth some level of investment (merger, acquisition, strategic partnering)?
- ...a capability that is unique to them?
- ...a capability that your organization has already over invested in and no longer needs?
- ...a capability that can be provided more cost effectively by a third party vendor (outsourced)?

By first understanding your capabilities you will be better placed to make objective, strategy-aligned decisions about *where* and *when* to apply your organization's resources in a way that should build competitive advantage.

This capability-based view of an organization is vital to organizational survival. IT-CMF provides an excellent guide to help you identify the maturity of your capabilities, and then build on them in a way that will help build competitive advantage in your market of choice.

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The Innovation Value Institute (IVI) is a multi-disciplinary research and education establishment co-founded by the National University of Ireland Maynooth and Intel Corporation. IVI develops frameworks to assist IT and business executives to manage IT for Business Value and to deliver IT-enabled business innovation. IVI is supported by a global consortium of like-minded peers drawn from a community of public and private sector organizations, academia, analysts, professional associations, independent software vendors, and professional services organizations.

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