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SILJA KORHONEN • M.SC.(FOR.) • UNIVERSITY OF HELSINKI

JUHA S. NIEMELÄ • HEAD OF DEPARTMENT  
• EMPLOYMENT AND ECONOMIC DEVELOPMENT CENTRE FOR CENTRAL FINLAND

# A Conceptual Analysis of Capabilities: Identifying and Classifying Sources of Competitive Advantage in the Wood Industry

This paper reviews and consolidates past research in order to create a conceptual framework that will help in identifying and classifying capabilities empirically. The conceptual tools are used to explore and explain the content and dynamics of the prevailing capability portfolio within one industry.

An identification and classification system is proposed that takes into consideration the following three dimensions: (1) the dynamism between firm-specific and industry-significant capabilities, (2) hierarchies of capabilities and (3) the internal structure of individual capabilities.

The empirical setting comprised a comparative, multiple-case-study with primary and

secondary data sources. The basic units of analysis were the 27 leading wood-industry companies in seven countries in both Europe and North America. Primary data was collected from 11 case companies, which were selected to represent the Anglo-Saxon, Germanic and Scandinavian business cultures and the three core businesses (timber, panel and engineered wood products). Four cases were further selected for in-depth study.

Industry-significant and firm-specific capability portfolios were complementary, dynamic and interlinked. The study identified three ways in which the companies had established their current competitive advantage through firm-specific capabilities: (1) through proactiveness, (2) through reactivity, and (3) through protectiveness. A distinctive element of the firm-specific capabilities that were under development was a set of skills that enabled the companies to stay ahead of the competition by building up new capabilities at a faster rate than their rivals.

Despite their focus on core businesses, the leading wood-industry companies aiming at competing in today's market environment have to develop and maintain a wide selection of resources and capabilities. The study shows that the importance of cost effectiveness has remained strong over the past decade, whereas knowledge and information management presents a capability group on the rise. Manufacturing capabilities no longer appeared among the firm-specific capabilities, although as an industry-significant capability set they contributed particularly strongly to cost-efficiency. The wood industry has constantly emphasised the need for value-added, innovative offerings. However, the market context did not encourage the companies to be experimental,

## EXECUTIVE SUMMARIES

but rather lead them to favour incremental, customer-driven process and product innovation. The non-product-specific nature of the higher-order capabilities makes it possible to establish competitive advantage through internal integration. ■