Competence-Based Communication: theoretical insights and empirical findings in the Initial Public Offering setting

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1 Competence-Based communication

1.1 Can competencies be communicated?

Competence-Based Communication (CBC) is a recent stream of research developed to explain the particular marketing communication that occurs in the Business-to-Business context (Golfetto, 2004a, 2004b). In the B2B environment, a business customer certainly seeks for a product of good quality, but above all it searches for a partner, a reliable competence provider, that is a supplier of solutions, a firm that has the capability to align its offer to the specific needs of the customer, a supplier that has the skills to be a valid reference for the customer’s problems. That is particularly true for relevant and new purchases, but it is valid for routine purchases as well. Our aim is to extend CBC into the B2C realm.

Competence is a wide concept, that cannot be easily classified. “By ‘competence’, we understand a typically idiosyncratic knowledge capital that allows its holder to perform activities – in particular, to solve problems – in certain ways, and typically do this more efficiently than others” Foss (1996a, 1). Assuming the supplier-customer perspective, what may be specified about this definition is that the problem solving process can be applied to a customer’s need, rather than intended as a process inside the firm. The firm can act as a problem solver for a client, thus ‘externalizing’ its competence.

We can distinguish between transfer of competencies and communication of competencies. They concern respectively actual customers or prospects. As to the former, competencies are transferred through the actual and ongoing business relationship between firm and client. A current customer that already entertains a business relationship with a supplier knows the competencies of the seller, thanks to the experience that has been developed. The firm have not to communicate its competencies, already embedded in the running relationship under the form of product and services.

On the contrary, the firm that faces a prospect cannot transfer competencies, but it can only communicate them. The supplier that faces a prospective customer cannot rely on previous knowledge and it should ‘speak’ about its competencies in order to transform the prospect into an actual customer. Literature and practice do not put much attention to this second setting where competencies should be communicated, rather than transferred.

The etymology of the term ‘communication’ is to put in common; hence communication is a natural element of a framework that theorizes the actual transfer of competencies, their overlap between supplier and customer. Competence communication is the first phase of that communality.

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The preliminary issue to be addressed is whether competencies can actually be transferred and communicated. Unlike assets, competencies are intangible, deeply embedded in the organization’s routines. They are “hard to trade” (Foss, 1996a, 2). Resource-Based View (RBV) claims that a distinctive resource or competence is such if it is valuable, rare, non-substitutable and inimitable (Barney, 1991; Grant 1998). The last feature is often tied to the firm’s tacit knowledge and embedded routines. The more defensible competencies and those that better assure firm’s competitive advantage are the tacit and non-codified competencies. A competitor can experience serious troubles in understanding the source of the firm’s competitive advantage, due to its tacitness. This causal ambiguity, as described by Rumelt, hampers the imitation of the firm’s competence. It is a communicative insulation of what distinguishes the firm from the others. A codified knowledge should be preserved by trademarks, patents and other legal arrangements designed to protect knowledge available to everyone; a tacit knowledge defends itself thanks to its impossibility to be systematically described.

Bringing this tacit dimension into the marketing domain, the same insulation that works against competitors should unfortunately work also for customers, hampering communication. The tacitness and embeddedness of the firm’s competencies that preserve it from competition might obstacle communication towards customers. If this is true, the only competencies that a supplier can communicate to customers are the codified competencies. For instance, a firm can communicate the layout of a newly discovered chemical process. This competence is codified into projects and patents (and eventually solidified into actual machinery). The communication is more difficult when it involves routines, tacit knowledge, intangible competencies. For instance, a company cannot easily communicate the high level of innovativeness of its research center, since the creativity and capability to innovate cannot be codified and it is only partially contained in tangible elements like products.

In summary, intangible competencies cannot be easily communicated or maybe they can be communicated only through socialization or direct contacts between the parties. Even the management of the company can have hard time in identifying the competencies of their own organization.

RBV and marketing have been considered as different (and someway opposite) fields. RBV interprets the firm as a stand-alone “repository of competencies” (Foss, 1996a, 2). This stance does not support a marketing perspective. In fact competence-based literature does not focus on the role of the customer. However it is the client that shapes the competencies that the firm should have, thus RBV should enrich its privileged focus on competitions. Bogner and Thomas (1996) notice that the strategic literature, where RBV developed (drawing from economics), fails in acknowledging the central role of the customer. The internal view of the firm is well developed in RBV, while “the same detail of the demand side is missing” (Bogner and Thomas, 1996, 105). Yet the two authors do not follow up their reasoning since they suggest a model where the exchange between firm and customer is based on the attributes of a product; they do not consider a transfer of competencies.

On the other side, marketing literature has tried to make a convergence between competence perspective and customer. In this attempt Day (1994), with his ‘market-driven capabilities’, has signed a fundamental step forward. But also in his approach, the competence is seen as an internal process that consists in a capability of understanding the market and linking to it. The market-driven organization does not seem to not differ very much from an organization that has the market orientation theorized by Kohly and Jaworsky (1990). In both views, the customer is ‘out there’ and the company should dutifully study its market and then deploy a viable product or service. No transfer or communication of competencies is theorized.

Among intangible resources conceived by marketing scholars, a particular position is occupied by relational assets. They represent a further step towards RBV-marketing convergence
and competence transfer. Relational assets are the competence to establish a long-term oriented and satisfying relationship with the customer, by cultivating trust, reputation and customer’s perceptions about the firm. They are external intangible assets (Vicari, 1995; Srivastava et al., 1998) that are not owned by the firm nor fully controlled by it, since they reside in the relationship with the customers (and other stakeholders as well). The intangibility of this competence is paired with the necessity for the customer to actually experience the relationship with the supplier in order to understand and appreciate the competence: no previous competence communication is argued. Also Day (1994) mentions the “linking capabilities” as fundamental in denoting a market-driven organization.

While relational assets are close to CBC, they do not perfectly match with it, since they do not reside in the customer. Moreover, relational competence is particularly difficult to communicate, since it should be directly experienced by the customer.

CBC is at the convergence of RBV and marketing. RBV and marketing have substantially failed in merging together their assumptions and acquisitions. RBV on one side does not study the process through which internal resources are transformed into something valuable for the customer. On the other side, marketing applies RBV concepts, but “bereft of any reference to RBV” (Srivastava et al., 2001, 778). “In short, the tenets, intent, and assertions of RBV to date have largely avoided direct contact with the concept, intent, and prerequisites of marketing” (Ibidem). The contribution by Srivastava et al. (2001) is one of the first in addressing the issue of how to unite such relevant but unconnected streams of thought. However, the authors situate their contribution within the traditional view that focuses on the value extracted from resources and then delivered to the customer. CBC takes a step further: its focus is not on the extraction of value from the competencies of the supplier, rather on competencies’ transfer and communication from the firm to its customer.

In summary, various disciplines have built the competence perspective (Foss, 1996b), starting from economics (Nelson, Winter, 1982), going through the strategic literature (Lippman, Rumelt, 1982; Wernerfelt, 1984) and reaching a more management-oriented and practical application (Prahalad, Hamel, 1990). What lacks in this scientific discussion is a marketing perspective. It is marketing that have the opportunity to innovate competence-based view by considering the role of customer not only as a receiver of product/service, but a receiver of competencies, both in its pure form (a consultancy activity for instance) or through a product intended as bundle of enabling competencies (a machine that enables the customer to make previously impossible actions).

We can sketch a sort of five-stages history of the development of the competence-based discussion, including the final emerging path of CBC - that we are discussing in this work - as a further step:

I) Competence is an internal factor that allows the firm to achieve a competitive advantage over the competitors. The focus is on assets and competition;

II) Marketing add more stress on the capabilities to face the customer and to satisfy its requirements. The customer is still ‘out there’, beyond the company’s boundaries. The firm remains the only owner of competencies, eventually letting them available for the customer, but not through direct transfer;

III) Resources are not inside the firm. Relational assets - like trust and brand equity – are introduced into the discussion. These assets reside in the relationship between firm and customer, nor fully owned by the firm neither by the client, but nurtured by their relationship.

IV) BtoB marketing stresses the relational side of the supplier-customer encounter. The customer ‘buys’ a supplier’s availability, reliability, customization ability, rather than a product or service. By this way competence transfer is allowed and expected, even though not totally theorized. Transfer is only sketched, since the literature would
prefer the construct of value. Möller and Törrönen (2003) speak about joint value creation, they do not claim that competencies are transferred. They keep their contribution into the perspective that sees supplier and customer separated from different sets of competencies that are interrelated, but not transferred, in a relationship.

V) CBC suggests that competencies are transferable and they can be communicated. Its contribution is mainly focused in the B2B context: our aim is to extend it to the B2C environment.

In order to measure how competencies are communicated, an inventory of competencies should be defined. RBV has been criticized for its reluctance to provide a clear and final definition of what is a resource or competence; “one reason why marketing scholars have not adopted RBV more vigorously perhaps resides in the absence of any general accepted delineation and classification of resources” (Srivastava et al., 2001, 779). Dealing with communication of competencies towards customers, it seems natural to refer to the conceptualization that marketing literature gives to the competence concept. The more relevant competencies in marketing are those customer-based and they are focused “upon the development and delivery of products or solutions” (Srivastava et al., 2001, p. 783).2 In the IPO situation that will be described below, no product is involved, thus what has to be communicated is truly a firm’s competence.

1.2 CBC position inside the communication field and its tools

Once assessed the possibility to communicate competencies and the type of competencies that are communicated, the second step is to analyze the position held by CBC inside the marketing communication. Corporate communication (Argenti, Forman, 2002) is a communication branch close to CBC, yet not perfectly overlapping with it. Corporate communication focuses on the reputation of the company, that can be interpreted as a complex bundle of distinct competencies. It is aimed at all the stakeholders. The boundary between corporate communication and CBC sometimes appears fuzzy, when referred to actual ads. Usually competencies are spread all over the company, therefore communicating them in CBC implies a message that deals with the company as a whole, like in corporate communication.

A form of competence communication can be noticed is crisis communication management, a part of corporate communication. In crisis situations (accidents, dangerous products’ flaws, malevolent act of firm’s employees) the company must communicate its ability to react to a harmful situation for the business and the customer; the firm has to communicate its competence of facing the extraordinary circumstances (Coombs, Holladay, 2001; Coombs, 2000). In this type of communication the theme is not the product but the reactive competence of the company in times of crisis.

CBC – although quite different from other types of communication - merges together marketing communication and corporate communication. Like marketing communication, its target is the customer; on the same time its content is close to corporate communication, since the company’s competence is the specific subject of communication.

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2 The market-based assets developed by Srivastava et al. (1998) have opened the RBV to an approach that does not bound the resource and competencies to the firm’s edges, but it founds them on the relationship that the firm has with the external environment (see also Vicari, 1995). These assets are relational and intellectual ones. The former spring from the relationship that a firm has established with its customers and other key stakeholders. Brand equity and channel equity are two expressions of such assets, since they represent the ties that the company has with relevant external actors. Intellectual assets are represented by the knowledge of the firm regarding the environment, the industry, the competitors and all the drivers that must be managed to reach the success in the activity. Also in this case, the asset is developed through a relationship with the external environment. In both cases the assets are a source of value for the firm’s customers in various forms: lowering the customers costs and enhancing its productivity, attaining premium prices thanks to the market-based assets provided by the firm, generating competitive edge. The origin and the goal of these two assets are the external environment, namely the market.
As to communicative tools, competence communication requires a deep interaction between supplier and prospective customer. Due to the intangible nature of competencies, socialization (Nonaka, 1994) and experiential tools are the best way to communicate. Other than this direct way of interaction, trade fairs (Rinallo, Borghini, 2003), open houses, personal selling and other experiential and direct tools are the preferred way to communicate competencies.

Advertising, on the contrary, may be at odds with competencies. Advertising has three distinctive features that seemingly make it less suitable for competence communication: it is a one-way communication, it is a mass communication and it has a lower richness compared to the above-mentioned experiential tools. That might imply that advertising can meet difficulties in conveying the supplier’s competencies.

- **One-way communication**

Interaction is not allowed in classical advertising, while socialization implies a strict connection between the parties, not the far-fetched advertising communication.

- **Mass medium**

Competencies are industry-contingent. For instance, what is central for a high-tech environment may not fit with other contexts. In a marketing view, competencies are customer-based, since they should be adjusted to the specific requirements of the single customer in a fine tuning process whose aim is to tailor the supplier skills to the customer’s needs. This may make advertising a too broad communication mean, able to convey only generic competencies, rather than specific ones.

- **Low richness**

The intangible nature and the complexity of competencies cannot easily be expressed in the limited space of a print advertisement or in the few seconds of a TV ad.

The observation that advertisement suits less the competence communication does not necessarily imply that advertisement is not employed in CBC. Advertisement may be useful for general and more simple competencies, while those communicate during an IPO. Deeper and more complex competencies may be communicated through more experiential media.

### 2. Competence based communication and IPOs

Although Competence-based communication approach was originally developed in the business-to-business context, and its first empirical tests were realized in industrial environments (Rinallo, Borghini, 2003), it can be profitably applied also in other situations. Among these, a particularly suitable one is the communication realized by firms which are going public through an Initial Public Offering (IPO). An IPO is a financial operation by which a firm offers its shares for the first time to the market, at a precise subscription price. The offer is generally addressed to institutional investors (such as banks or investments funds) and to “general public”. The operation usually specifies also the fraction of the offer reserved to institutional investors and that set aside for the public.

Considering the particular importance of an IPO, these operations are usually supported by strong communication efforts, aiming at unveil the firm to the market and, consequently, promoting the subscription of its shares. The promotion of an IPO usually implies the use of different communication tools, according to the different investors which are targeted. In particular, communication towards professional investors are usually based on road shows, conference calls,

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3 Internet is developing new forms of advertising in which the receiver can interact with advertisements (see Center for Interactive Advertising at http://www.ciadvertising.org/ciad).
and meetings, while communication targeting general public typically makes use of mass media, such as newspaper, radio, TV.

But, which should be the content of these particular types of communications?

As their main goal is to encourage investors – both professional and not – to subscribe the offer, the promotion of an IPO should stress the capability of the firm going public to generate extra-profits for its shareholders. If we adopt the resource-based view approach, the capability of a firm to produce extra-profits is to be related to its endowment of resources and competencies which have to be valuable, rare, non substitutable and inimitable (Barney, 1991). Consequently, we can assume that also the communication of an IPO should be more centered on firm’s capabilities than on the “product” itself and its financial details. In other words, as a potential subscriber is interested in buying the capability of the firm to generate extra-profits, and this capability depends on its possession of unique competencies, these competencies should be the focus of the IPO’s promotion. Thus, the CBC approach should be found also in this new communication context.

3. Hypothesis

We propose to test the CBC approach with reference to the communication of an IPO. If the CBC perspective holds also for IPOs’ communication, we expect it to be promoting more the firm’s competencies than explaining mainly the financial details of the operation, such as the subscription price or the quoting day. Thus, we assume the following:

\[ H1. \text{ Communication supporting an IPO is more centered on the firm’s competencies than the financial details of the operation.} \]

We can also expect that messages focused on firms’ competencies are more effective in attracting subscribers than messages explaining mainly the financial details of the operation. Consequently, we may expect that IPO’s communication centred on firm’s competencies is more effective in attracting subscribers than those promoting mainly the financial details of the offer.

Our aim is twofold: to pre-test a method that can analyse IPO communication seeking for CBC and to obtain some preliminary results.

4. Methodology

4.1 Content Analysis

We’ve restricted our analysis of IPOs’ communication to print advertising, and applied a content analysis. Our aim is to pre-test the method to a small sample in order to verify its possible application to a larger sample. Thus the findings should be intended as preliminary.

Content analysis is a method that traditionally fits with the advertisement communication. Content analysis can be defined as a method that classifies the communication content in an objective, quantitative and systematic manner (Berger, 2000; Gunter 2000). Marketing studies have developed content analysis starting from the theorization provided by Kassarjian (1977).

The concept of competence, as above illustrated, presents some complexity in its definition and recognition. A reliable measurement of competencies is the final test that RBV’s supporter must face in order to show the validity of their theory. The scientific debate around the measurement is currently quite vivid, due to the difficulty of such a challenge. Among the works that have attempted a measurement, that by Henderson and Cockburn (1994) significantly puts the

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\[ ^4\text{We chose to study only print advertising for feasibility reasons. In fact, analyzing other typical IPOs’ communication tools, such as road shows or conference calls, require the researcher to participate directly to the events, which is not always possible, and is a very time-consuming activity.} \]
question mark after the expression “measuring competence” in their title. The two authors employ the number of patents as a proxy for innovative competence.

This difficulty in competence measurement is exacerbated in content analysis. What is particularly relevant in this research method is a careful operational definition of the concepts searched. Any category employed for the classification should be defined in a way that would allow independent coders to reach the same result applying the same protocol. The concept of competence cannot easily be defined in such operational terms. Competence is such a broad concept that it cannot be directly referred to specific statements or pictures in a print advertisement. As Kassarjian (1977) notes, in content analysis validity and reliability are in a trade-off relationship. Focusing too much on validity, the researcher would develop coding categories that would precisely catch the concept to measure, but negatively impacting on objective replication of the coding protocol, thus on reliability.

While syllables, words, characters and other elements of a message can be analyzed, theme is the most frequently employed unit of analysis for advertising studies (Commuri et al., 2000; Suzuki, 1980, 65). This is particularly true for the competence concept, that cannot be fully conveyed through units of meaning like single words, or even single statements. In one of the most recent applications of content analysis to ads, Fay (2003) analyses the change of the content of New Zealand food ads, employing several categories. In the Fay’s study the content of the ad is captured both through the counting of text components and the appreciation of the entire ad (picture and words). In the present study interpretation is necessarily employed, since the theme is the unit of measure; on the same time the interpretation of which theme emerge from the ad is quite strictly led by the interpretation grid provided.

4.2 The grid

The codification grid devised for our pre-test analyses the two components of the print advertisements: text copy and visual. As to the text, every sentence (the phrase between two full stops) of the body copy is classified as 0 if referred to the IPO and when it refers to the competencies of the firm. An IPO-based sentence would be a phrase that explicitly presents, illustrates, describes or somehow refers to the coming company’s IPO. Some examples of such sentences would be: ‘The deadline for subscription is 24 October’ or ‘The return on investments of your share will be X%’. Otherwise a sentence is classified as referred to the firm’s competencies. The ad’s heading is treated in the same fashion. The heading’s impact is greater than the body text, thus a greater weight is assigned to it compared to the body text. The weight is proportional to the character size. Finally, a weighted average is computed; it expresses the CBC intensity of the textual part of the ad.

The same criterion is applied to the visual. The visual is referred to the competence (1) or the IPO (0). Although the interpretation of a picture is more subjective, it is fairly simple to spot whether a photo or a graphic representation directly deals with the IPO operation or not. The percent of the page covered by the visual is also computed in order to have a weight for the visual.5

The final ‘score’ of a print is the weighted average of scores of the visual and the textual part. The final score is a number that would position the ad into a CBC scale from 0 (no CBC) to 1 (maximum CBC) as the following formula would show.

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5 It may happen that the distinction between visual and text is not so clear. Sometimes the text has sophisticated graphical form that does not allow to distinguish it from a visual.
\[
\text{Visual} \times \text{Coverage} + (1 - \text{Coverage}) \times \left[ \frac{w_h \times \text{Heading} + w_s \sum_{i=1}^{n} \text{Sentence}_i}{wh + n \times w_s} \right]
\]

where:

- Visual = 1 or 0 (CBC or no CBC)
- Coverage = Percent of the page covered by the visual
- Sentence\(_i\) = Value of the sentence \(i\); 1 or 0 (The sentence is CBC or referred to the IPO)
- Wh = weight of the heading
- Wi = Weight of the body text sentences
- n = Number of sentences in the body text

For instance, let us suppose a visual that covers 70% of the page and that communicate competencies; the textual part is made by a heading that communicate competencies and a body text made by three sentences that details an upcoming IPO. The heading is three times bigger than the body text. It is easy to compute CBC intensity of the ad with those features is 0.85.

The method described has some limits that springs from the typical features of content analysis (i.e. the difficulty in catching nuances of sense and in framing a holistic meaning of the ad) and from the complexity of the competence construct. Among these limits, the most relevant ones are the following:

- The method can identify the ads that are not IPO-based, but this does not necessarily imply that these ads are an instance of CBC. Hypothetically the ad can communicate a product of the firm (neither IPO, nor CBC). While this limit is true in general, it cannot be applied to our case: the ad chosen for analysis are those that form the IPO ad campaigns; these ads do not try to ‘sell’ products, thus they should refer either to the IPO or the company as a whole.
- The content analysis interprets chunks of the ad, not the ad taken as a whole. Every sentence, extracted from its context can be interpreted in a unrealistic way. For instance, a sentence like ‘Last year revenues were 50 million’ should be classified as competence-based, since it refers to the capability of the firm to produce economic value. But when it is put in context in the ad, the sentence can be a comment to a previous sentence that mentions the IPO. Therefore the same sentence, when linked to the context, could be interpreted as a reinforcement of the IPO- based communication and classified as IPO-based. The same consideration hold for the ties between the text and the visual. Taken as independent components they have a meaning that may be reversed when interpreted as a whole.
- The comparison between the coverage of the visual and that of the text is not strictly homogeneous. Given two identical coverage percent of the visual and textual part, one can expect that the visual has more impact. Therefore, we should introduce a weight for the two coverage, giving more relevance to the visual. However, it is not possible to define how much more a visual is more effective than a text.

While the mentioned limitations has to be taken into account, it is reasonable sure that content analysis is a objective tool to assess whether an advertisement is IPO-based or CBC.

5 Method pre-test and preliminary results

Two independent coders applied the content analysis described. The aim of the analysis was twofold: to pre-test the method and to obtain some preliminary results on CBC and IPO. The ads
chosen were the six print ads of the campaigns organized by ACEA for its IPO in 2000. ACEA is the leading multi-utility company operating in Rome (Italy).

The degree of intercoder agreement was high. On every ad and for every part of the ad the coders gave the same interpretation. On just few case (three sentences) there was a disagreement that was finally solved through discussion. Such a high agreement makes us confident that the protocol can be objectively applied and replicated. Reliability and replicability are among the most relevant features of the content analysis method. As to validity, the method can classify IPO-based and non IPO-based ads, then it can deduce CBC from non IPO-based ads. This indirect demonstration of CBC is a limit of content analysis, but – as posited before – in this methodology it is common to have some trade-off between reliability and validity.

As to the results, an ad is shown in order to illustrate its content analysis (see Figure 1).

![Figure 1: Ad of the ACEA campaign in occasion of its IPO](image)
In this case the heading is CBC and it has a size of 31. The three sentences of the body text have size 8; the first sentence is IPO-based (value 0), the last two sentences have a content that can be interpreted has both CBC and IPO-based (thus a value of 0,5). Finally, the text at the left of the ACEA brand is IPO-based, with a size of 21. As to the visual, it covers 37,5% of the page and it is CBC. By inserting these values in the formula mentioned earlier, the CBC value of the ad shown is 0,698.

By applying the same procedure to each ads, we obtain that 4 out of the 6 ads are 100% CBC, one (that shown before) is 69,8% and one is 54% CBC. The sample is clearly too small to have results that may be generalized, however the hypothesis H1 that the IPO communication is CBC was demonstrated for this important campaign. A cursory look at other Italian campaigns show that CBC is extensively applied, supporting H1. A larger sample can be a further step for research in this area.
References


