Back to Core - Core Competency a Strategy for Sustainable Competitive Advantage

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Abstract: *Core competency thinking is a powerful and widely promoted approach to focus and mobilize an organization's resources. As a result, R & D and technology executives are increasingly being asked to define the core technical competencies of their companies. Core competencies are the things that some companies know how to do uniquely well and that have the scope to provide them with a better-than-average degree of success over the long term. A company's current product and service offerings merely represent today's physical embodiment of its competencies. Indeed, the success of a company's products at a point in time does not necessarily relate to its level of competency.*

This Paper focuses on need of building a core competency. It identifies importance of core competencies. It presents core competence strategies adapted in some companies. This paper suggests the relevance of core competencies today.

Key words: *Core Technical Competence, Core Marketing Competence, Competitive Advantage, Distinctive capabilities.*

Introduction:

A Core Competency is a deep proficiency that enables a company to deliver unique value to customers. It embodies an organization's collective learning, particularly of how to coordinate diverse production skills and integrate multiple technologies. Such a Core Competency creates sustainable competitive advantage for a company and helps it branch into a wide variety of related markets. Core Competencies also contribute substantially to the benefits a company's products offer. Understanding Core Competencies allows companies to invest in the strengths that differentiate them and set strategies that unify their entire organization. .

The core products provide a tangible link between identified core competencies and the end products. The real competitive advantage lies in integrating operations for the sake of hitting demand quality targets or meeting specialized customer needs. A core competence provides potential access to a wide variety of markets, it should make a significant contribution to the perceived customer benefits of the end product, and finally a core competence should be difficult for competitors to imitate.

The organizations need to build its strategies within different clear scenarios, in different ways, based on different competencies for the purposes of achieving real advantages in the shadow of unknown, risk, and uncertain future. A core competence differentiates not only between firms but also inside a firm it differentiates amongst several competencies.

Defining Core Competence: Core Competence refers to that set of distinctive capabilities that provide a firm with a sustainable source of competitive advantage. Core competencies emerge over time, and reflect the firm's ability to deploy different resources and capabilities in a variety of contexts to gain and sustain competitive advantage.

Prahalad and Hamel (1990) have defined core competence as the collective learning and coordination skills behind firm's product lines. Core competencies are the source of competitive advantage, and enable a firm to introduce an array of products and services in the market.

Literature Review

A core competence is a tapestry woven from the threads of distinct skills and technologies. A skill must meet three tests to be considered as a core competence, i.e., customer value, competitor differentiation, and extendibility. Identification is arguably the starting point of all core competence research (Clark, 2000). Core competencies are a bundle of skills and technologies that enable a company to provide a particular benefit to customers (Hamel and Prahalad, 1994).

An organizational core competency is an organization's strategic strength. It is what the organization does best and what it should never outsource. Organizational core competencies—the unique resources of an organization—affect many products and services and provide a competitive advantage in the marketplace (Johnson & Scholes,

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2002).The process of identifying core competencies usually entails having employees identify core competencies by scanning and assessing company-critical resources, capabilities, and competencies (Prahalad and Hamel, 1990)

No.	Name	Concept	Indicator
1	Kotler (2010)	Core competencies tend to refer to areas of special technical and production expertise	Special technical, production expertise
2	Umar (2008)	Core competencies are a function of technology, process and learning outcome.	Technology, process, learning.
3	Mooney (2007)	Core competence must be a skill or capability of a firm. A core competence is central to a firm's value-generating activities.	Skill, capability
4	Rao(2005)	The fortunes of high-technology firms depend on investments in intellectual capital – R&D capability, human capital, and the like – has been well established, the central role of complementary marketing capital – in the form of brand name and other marketing assets.	R&D capability, Human capital, brand name and other marketing assets.
5	Hunger & Wheelen (2003)	Distinctive competencies are special skill and resources own of the firm and preeminent way which its uses	Special skill, resources, preeminent way
6	Barney (2003)	The drives of competitive advantage, ranging from resources, capabilities, competencies and assets	resources, capabilities, competencies, assets
7	Tarek Khalil (2000)	Core competence could be in a technology, a product, a process, or the way it integrates its technological assets. Also in marketing, infrastructure, human knowledge or skill.	technology, marketing, infrastructure, human knowledge or skill
8	Day George (1999)	The Sources of competitive advantage are superior skill, resource, and controls.	superior skill, resource, and controls.
9	Stone and Pemberton (1999)	Core competences or distinctive capabilities are combinations of resources and capabilities unique to a specific organization and generating competitive advantage by creating unique customer value.	resources, capabilities unique
10	Matthyssens, P. dan Vandenbempt (1998)	Superior value creation results from a balanced and inspired management of the value drivers, "assets" and "unique skills" of the general competitive advantage model.	asset, skill
11	Machado (1997)	Core competencies are collective sets of knowledge, skills, and technologies that a company applies to add value for its customers.	knowledge, skills, technology
12	Gallon, Stillman dan Coates (1995)	Core technical competencies (CTCs) : technology Core marketing competencies (CMCs) : product, pricing, communication, sales, distribution	technology and product, pricing, communication, sales, distribution
13	Prahalad dan Hamel (1990)	Core competencies are the collective learning in organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies.	skills, technology

Objective of the study

The objective of the paper focuses on need of building a core competency. It identifies importance of core competencies. It presents core competence strategies adapted in some companies. It suggests the relevance of core competencies today.

Creating Core Competence

The concept of core competence has enabled organizations like Ranbaxy Laboratories, ITC, Hindustan Lever, Wipro, Infosys Technologies, Dr Reddy's Laboratories, Larsen and Toubro, and the Murugappa group, among others, to grow their businesses from strength to strength. Core competence is an exercise best orchestrated by senior managers who understand how firm core competence is created and also have the clout to enforce necessary networking and cooperation among functional departments.

4 traits related to building core competence:

1. Rarely consist of narrow skill or work efforts of a single department.
2. Typically emerge from combined efforts of different work groups and departments.
3. Gaining competitive advantage entails concentrating more effort than rivals on creating or strengthening core competencies.
4. Bases of competency need to be broad and flexible to react to changes in customer's needs.

To be considered core competence a skill must meet three tests:-

Customer Value: Core competencies are the skills that enable a firm to deliver a fundamental customer benefit. The competence must give the customer something that strongly influences him or her to choose product or service. If it does not, then it has no effect on competitive position and is not a core competence;

Honda's ability to produce some of the world's best engines and power trains does provide customers with highly valued benefits of superior fuel economy, zippy acceleration, less noise and vibration.

Competitor Differentiation: A capability must also be competitively unique. The core competence should be difficult to imitate. This allows companies to provide products that are better than those of their competitors. And because it is continually working to improve this competence, it means that it can sustain your competitive position;

Power train is a core competence at Honda which has never been so at Ford / s.

Extendibility: A core competitive is truly core when it focuses the basis for entry into new product markets. It should be something that opens up a good number of potential markets. If it only opens up a few small, niche markets, then success in these markets will not be enough to sustain significant growth.

SKF, the world's leading manufacturer of roller bearing has competencies in antifriction, precision engineering and making perfectly spherical devices. In order to achieve extendibility, SKF must be capable of manufacturing the round, high precision recording heads that go inside a VCR, most of which are now manufactured by Japanese firms.

Core competence perspective

Core competencies arise from the integration of multiple technologies, and coordination of diverse production skill. A core competency can take various forms, including technical know-how, a reliable process, and/or close relationships with customers and suppliers (Mascarenhas et al. 1998). Three tests are used to identify a corporation's core competence. A core competence should:

- Be stretchable to a wide variety of markets.
- Contribute significantly to end-product benefits/consumer value, and
- Are sufficiently superior to substantively differentiate from the competitors.

The benefits of core competencies may not appear for ten or more years, because it often takes that long for new markets to emerge. Thus a key responsibility of top management is to put aside short-run considerations and take time to imagine the company's future, identify what core competencies it will need, and garner the resources to build them. A firm's future core competencies may be quite unlike its present ones. The most useful provide potential entry into a wide variety of new product markets. Core competencies are not necessarily about high spending or investment in core technologies; they are about effective coordination among all the groups/people involved in bringing the product to the market through effective utilization of core technologies and processes across a wide variety of products/markets.

- Identifying existing core competencies
- Establishing a core competence acquisition agenda

- Building core competencies
- Deploying core competencies
- Protecting and defending core competence leadership

Benefits of Core Competence: Core competencies are the skills, characteristics and assets that set the company apart from competitors. They are the fuel for innovation and the roots of competitive advantage. Today's corporation must maintain competitiveness by developing core competencies. Competencies must translate into core products, which significantly contribute to the firm's end products. Conscious management attention to the task of building strategically relevant internal skills and strengths into the overall organizational scheme is one of the central tasks of organization building and effective strategy implementation. An organization that has clearly defined and articulated its core competencies will be in a solid position to take on competitors and grow steadily. Core competence refers to a bundle of skills and technologies that enables an organization to offer superior benefits to customers. In doing so, the organization develops a competitive advantage that places it far ahead of its nearest competitors, and virtually builds for the organization a market of its own. Since there are so many entry barriers for any new competitor, the organization would march ahead with a variety of strategies to cement its position in the particular business segment it does its business in, and stay the undisputed market leader for a very long period of time. Organizations like Sundaram Fasteners, Raymond, Infosys Technologies, ICICI Bank, State Bank of India, WIPRO, Tata Consultancy Services, Sundaram Finance, and the TVS group, among several others, have been built on the Core Competency model.

- Core competencies help create competitive advantage. Even good markets will not make a 'me too' firm competitive in the long – run.
- It helps pave way for above – average performance over the long – run.
- It improves chances for long – term success as competencies are enhanced with time.
- Core competencies lead to the development of core products. These core products are used to build a larger number of end – user products.
- The matching of market opportunities with a firm's core competencies forms the basis for launching new products, or entering new markets.
- Constantly improving competencies provides for new integrated technologies.
- Competencies provide focus for long – term goals.

Core Competencies in different companies: The terms core competence and core capability are often used interchangeably, but some writers make distinctions between the two concepts. A core competence refers to a set of skills or experience in some activity, rather than physical or financial assets. Here are some of the areas of core competencies in various organizations which made them sustainable in the global market and created a competitive advantage.

- At **Sony** – benefit is *pocketability*. Core competence is miniaturization. Expertise in electronic technology and ability to translate this technology into developing and manufacturing innovative products – miniaturized radios and video camera and TVs and VCRs with unique feature. Sony's decision to specialize in the miniaturization of electronic devices is a good example of a firm selecting a core competency for development. This decision was made years before the Walkman, the portable CD player, and portable television sets became popular consumer products.
- Core competence of Eli Lilly and company - The core competencies of the organization are R&D and Marketing. The concept of core competence has been properly communicated to the people in the organization. The top management facilitates the development of core competencies by providing full support. The capabilities exhibited by the management to develop the core competencies include corporate strategic planning, strategic alliances, huge investments in R&D and, training and development. It allows to see that every part of the company plays a role in the strengthening its position, thus bureaucratic walls crumble and the spirit of cross-functional teamwork begins to take hold, adding great value to the products in numerous ways. Lilly is a worldwide leader in pharmaceutical based integrated health care and recognizes the importance of understanding a wide array of domestic and global unmet medical needs of the people. It is engaged in more than 100 R&D agreements and has tapped the huge potential of markets around the world. The

core competence of the organization enables it to deliver a set of customer benefits at lower cost than its competitors.

- **Core competence of CavinKare** - the company is a Chennai-based entrepreneurial firm. With extensive reliance of customer research, branding and clever positioning, CavinKare has flooded the market with hair care, skin care, and personal care products, creating strong brands like Fairever, Chik, Spinz, and Meera. The company has also been successful in the use of sachets to sell low unit volume products, thereby reaching even the poorest consumers. The core competence of the company is its engaging with the customer to support traditional rational marketing research, to identify market opportunities for branding. Recently, CavinKare, leveraging on this core competence, has entered the foods business with the acquisition of the Ruchi brand of pickles. The fastest growing food segment in the market that is amenable to packaging in sachets was quickly identified by CavinKare, and the company is now planning to introduce premium pickles in sachets.

- **Core competence of Kellogg's** - Innovative R & D and Creative marketing. Throughout their history, Kellogg's has been investigating consumer taste and preferences and then investing in the development of new, innovative foods based on their findings. It has relied on intense marketing and promotions – founded on extensive advertising campaigns, cartoon spokes persons, quality benchmarks – to familiarize the market with its products and standards and create and capture demand for their brand.

- **Telecommunications Consultants India Ltd (TCIL):** TCIL was set up in 1978 by the Government of India 'to render consultancy services, and to undertake turnkey jobs from concept to completion in all fields of telecommunication in India and abroad'. Some of the major competitors of TCIL in the international market include Alcatel, Siemens, Ericsson, NKF, Nokia, LG, Samsung and Marubeni. TCIL is a government owned Indian company and it operated in a wide variety of projects/countries/technologies and its core competence is 'establishment of a telecommunication network (transmission, switching, and external plant or access network) at competitive prices'. System integration is the key expertise that TCIL demonstrates in every project. Clearly, the emphasis as on service providing, especially project management and implementation skills. It was widely acknowledged within the company and in the market place that TCIL is not competing on offering superior technology to its clients, rather it brings the much needed implementation skills in a typical infrastructure project. Thus, TCIL's competitiveness comprises of the existence of a homogenous source of trained manpower (from DOT) provides them with a sense of brotherhood that is crucial for project implementation. Coupled with this is TCIL's culture of working closely with the locals through sub-contracts and good vendor relations. The advantage of being a PSU has also helped in generating faith in other governments. Lastly, excellent financial, procurement, and outsourcing management, and lo manpower overheads have contributed significantly to make TCIL highly competitive in the international telecommunications market.

- At ***Wal-Mart,*** its major competitive core competence is its superior logistics system.

- ***Nokia*** is a good example of a company performing at the highest level. Nokia, which traditionally manufactured rubber boots, developed new core competencies, ventured out, and now produces mobile phones. Nokia has been able to open up new markets by using their innovative technologies.

- ***Qualcomm,*** a large wireless telecom R&D company based in San Diego has created a new technology that will undoubtedly have a huge impact on digital devices used for downloading books, video etc. The company has developed a screen that uses ambient light to allow images and text to be viewed, as opposed to backlighting used in laptops and Apple's iPod. The screen is called Mirasol, and uses minimal battery power and can be used in direct sunlight. In contrast to Amazon's Kindle which also uses ambient lighting, the Mirasol allows color and video. Qualcomm is a company that continues to push innovation through the effective identification and application of its core competencies.

- At *Federal Express* – benefit is on time delivery - Core competence is logistics management and customer service.

- At ***Motorola*** –benefit is untethered communication - Core competence is wireless communication.

- ***Honda*** has a core competence in small engine design and manufacturing.
- ***Microsoft*** has the core competence of designing office software products that are user-friendly.
- ***PepsiCo*** has a core competence of mass production and distribution of bottled drinks.
- ***Polaroid*** has a core competence in manufacturing immediately self-developing film.
- ***Ernst & Young*** has the core competence of performing audit functions for Fortune 500 corporations.
- One of ***Wal-Marts*** core competencies is their massive real-time information system.
- ***Intel*** – design of complex chips for computers.

Risks of ignoring core competencies

Core competencies take a long time to build and practice. But when practiced over a long period of time, the particular sets of skills that give rise to the particular core competency make it impossible for any new competitor or even existing competitor to imitate or emulate. Core competencies are part and parcel of a grand strategy born out of the vision of the founder. Without core competence, a firm could be a bunch of businesses with little or no synergy across different business units to build them into a coherent business portfolio.

- Opportunities for growth will be needlessly turned down.
- As a company divisionalizes and fractures into ever smaller business units, competencies may become fragmented and weakened.
- The lack of core competence perspective can desensitize a company to its growing dependence on outside suppliers of core products.
- A company focused only on end products may fail to invest adequately in new core competencies that can propel growth in the future.
- A company that fails to understand the core competence basis for competition in its industry may be surprised by new entrants who rely on competencies developed in other end markets.
- Companies insensitive to the issue of core competence may unwittingly relinquish valuable skills when they divest an under-performing business.

Conclusions

Core competence is communication, involvement and a deep commitment to working across organizational boundaries. It is impossible for any organization to build core competencies in the short term. They take years to build. The vision, mission and values and beliefs of the organization should be clearly defined and strictly adhered to. They should also be constantly and systematically communicated to all employees. This is extremely important. Once this is done, building core competencies will require tremendous amount of energy and time, in training and re-training people, making continual improvements, building databases where knowledge can be stored and retrieved and making core competencies embedded throughout the organization.

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