From Core Competence To Competitive Advantage : An Intellectual Journey

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Abstract

This is a brief paper based on the work done by the two authors in the areas of excellence and sustainability along with Sorab Sadri since 2005. C.K.Prahalad and Gary Hamel in their landmark article in the Harvard Business Review introduced the phrase 'Core Competence' 1990. They define Core Competence as an integrated bundle of skills and technologies, a messy accumulation of learning, which contributes, to a business's competitive success. This paper argues that when a firm fails to correctly identify its core competencies, it misses good opportunities and chases poor ones. Hence, proper identification of core competencies is necessary in order to be able to use them to gain competitive advantage. This is one big lesson that Indian business and industry can ill-afford to overlook if they are to remain globally competitive. And for this excellence and sustainability are the sine qua non.

Introduction

Sadri et al (2009) and Jayashree et al (2008) have maintained that organizational change is non linear and non Newtonian. In this race for the survival of the fittest what matters is core competency upon which divergent competency rests (Sadri and Jayashree 2010) go on to say that this cutthroat competition brings out utilitarian perspective among managers and people tend to become selfish. They have between 1999 and 2009 argued that values and ethics form the base on which organizational excellence rests. Organizational excellence, Sadri and Guha, elsewhere argue cannot be an end in itself and must lead to sustainability. This is the fundamental logic on which this paper's argument has been developed. The authors argue that core competence leads to competitive advantage that in turn is the basic element for both excellence and sustainability.

Some authors have used the phrase 'capability' or 'core capability' as better expressing the dynamic learning process involved. These terms define those unique capabilities, knowledge and behavioral routines that are potential source of an organization's advantage. The idea that complex internal capabilities are critical to firm's success is not new as core competence. Philip Selznick, in his book, Leadership in Administration, was one of the first writers to acknowledge that factors internal to an organization, such as its personnel and its previous experiences, are crucial to its chances of success in executing a Chosen policy. In essence, Selznick argued that in field of business activity past determines present He said that an organizations developmental history results in its having special limitations and capabilities - a character, or emergent institutional pattern that decisively affects the competence of an organization to frame and execute the desired policies'. This he called as 'distinctive competence'. The goal of corporate strategy was to match a firm's distinctive competence with available opportunities and thereby gain competitive advantage.

Robert Hayes, writing in Harvard Business Review in 1985 criticized what he called the ends-ways-means approach to strategic planning. He questioned whether managers should decide on strategy before deciding on the means of implementing that strategy. He advised managers 'Do not develop plans and then seek capabilities; instead, build capabilities and then encourage the development of plans for exploiting them'.

The central proposition of this group of writers is that organization is an accretion of specialized resources, which can be used to gain a privileged market position - a sustainable competitive advantage. Firms acquire, develop and expand their resource bundles over time, and because organizations follow different developmental paths, firms have different resources. Hence the organizations history and experiences, its character and culture, and its strengths and capabilities all contributes to its strategy and indeed are crucial in determining in success of that strategy.

At the business level, a key idea is that competitive advantage stems from the firm's unique resources and capabilities, which are hard for competitors to imitate or acquire. At the corporate level resource based theorists perceive the firm as bundles of resources which can have different applications; that is, the firm's resources can be deployed in different businesses with different end products. Using the language of resource-based school, Barney argues that a firm's resources and capabilities are competitively important if they are (l) valuable, (2) rare and (3) difficult to imitate.

1. The value of a resource depends on the opportunities available for exploiting it, and these opportunities can change. For example, IBM's capabilities in mainframe computers became less valuable as personal computers became more sophisticated and cheaper.
2. Competitively important resources are also rare. If many competitors have the same or similar capabilities, none of them will have a competitive advantage.
3. The third criterion for the competitively important resources is that they are difficult to imitate. As many physical resources are easily imitate, rivals can build similar plants or copy a process technology. It is far more difficult to imitate capabilities that depend on teamwork, culture and organizational routines. These resources are usually complex, the result of a firm's own history and of numerous small decisions overtime which contribute to the development of unique capabilities Barney cites the example of Hewlett Packard's corporate adjure, which encourages teamwork and co-operation across divisions. This has enabled HP to use its technologies in varied products - printers, plotters, computers and electronic instruments - and to make these products compatible. Rival fauns may be able to duplicate the technology of HP's products, but it is not easy for competitors to imitate the culture and organizations, which underpins HP's success.

Capabilities are often a firm's most important resources because they are valuable, rare and difficult to imitate. At the sane time, the complexity and opaqueness of a firm's capabilities creates a management problem of its own. To capitalize on an organization's resources, managers need to be able to identify them, make decisions about how to exploit them, and know how to expand them. Without this knowledge, successful strategies would only be the lucky result of historical decisions or accidents. To understand how firms acquire and expand their capabilities we have to turn to learning theory. There then emerges a symbiotic and indeed dialectical relationship between people management and corporate strategy that allows the company to thrive on the cutting edge of market competition by harnessing the tools provided by emergent technology and binding it with innovative practices. There may indeed be some amount of serendipity in this but usually this is the result of astute strategic planning, monitoring and execution.

ORGANIZATION AS LEARNING SYSTEMS

Leaning is one of the most important factors in developing and managing an organization's core capability. Organizational learning can be defined as the capacity or process within an organization to maintain or improve performance based on experience. Learning is a systems-level phenomenon because it stays within the organization, even if individuals change. Learning is as much a task as the production and delivery of goods and services. It does not mean organizations could sacrifice the speed and quality of production in order to learn, but, rather, that production system be viewed as learning systems. While companies do not usually regard learning as a fixation of production, research on successful firms indicates that three learning related factors are important for their success.

1. Well-developed core competencies that serve as launch points for new products and services.
2. An attitude that supports continuous improvement in the business's value- added chain.
3. The ability to fundamentally renew or realize an aim.

These factors identify some of the qualities of an effective learning organization that diligently pursues a constantly enhanced knowledge base. This knowledge allows for the development of competencies and incremental or transformational change. In these instances, there is assimilation and utilization of knowledge and some kind of integrated learning system to support such 'actionable learning. Indeed an organization' s ability to survive and grow is based on advantages that stem from core competencies that represent collective learning.

Although, not all learning is the same, some learning is dysfunctional, and some insights or skills that might lead to useful new actions are often hard to attain. However, some learning does lead to development of special skills leading to organization's core competencies.

Core Themes

1. **All organizations are learning systems:** All organizations have formal and informal processes and structures for the acquisition, sharing, and utilization of knowledge and skills. Members communicate broadly and assimilate values, norms and procedures both in formal and informal way. In short, all organizations, in some way or other, are learning systems.
2. **Learning conforms to culture:** The organization's culture or subcultures determine the nature of learning and the way in which it occurs.
3. **Style varies between learning system:** There are a variety of ways in which organizations create and maximize their learning. Basic assumptions about the culture lead to learning values and investments that produce a different learning style from a culture with another pattern of values and investments.
4. **Generic processes facilitate learning:** How will an organization maximizes learning within its chosen style does not occur haphazardly, Data suggests that talking about the 'learning organization is partially effective, some policies, structures and processes do seem to make a difference. The difference is in how easy or how hard it is for useful learning to happen, and in how effective the organization is in 'working its style'.

Whatever the organization's choice, the following are three guidelines for developing and implementing a chosen strategy for improving organizational learning capability:

1. Before deciding to become something new, study and evaluate what you are now. Without full awareness and appreciation of current assumptions about management organization and learning, it is not possible to grasp what is being done well and what might be improved or changed.
2. Organizations can change in major ways if people experience success with more modest, focused, and specific changes. As with many skills, there is a learning curve for the skill of managing and surviving transitions. Large-scale change requires that many initiatives be put into place in a carefully designed, integrated sequence.

3. Organizations must consider cultural factors in choosing and implementing any strategy, particularly when considering how it does specific things. For example, in a highly individualistic society like the United States or the United Kingdom, skill development focuses on individual skills; in comparison, more communitarian societies such as Japan or Korea have traditionally focused on group skill development. Moving from one pole to another is a major cultural change to simply improve on the existing orientation is much easier.

Targeting A Company's Core Competencies

By recognizing its core competencies, a company can clearly define organizational boundaries and focus resources for maximum advantage. The authors outline an approach for identifying those competencies that can provide a company with the best chance to achieve long-term competitive advantage. The twin concepts of core competence and business processes figure prominently in most discussions of corporate strategy. The core competence concept helps top managers answer the fundamental question what should we do?' and the business processes perspective addresses the question 'How should we do it?'

Both concepts are indispensable in guiding firms to achieve enduring competitive advantage and superior profitability. Both are founded on a simple notion: that the firm is a system of activities, not a portfolio of individual products or services Some activities are performed so much better than the competition and are so critical to end products or services hat they can be described as core competencies. When a series of activities are organized into a system that works better than the sum of its parts, this business process can also create competitive advantage, even if component activities by themselves do not.

Business process reengineers have developed an analytically rigorous discipline that can systematically applied and plainly communicated to others. For the core competency concept to achieve this same success it must be linked to the underlying business economics that drive competitive advantage and it must be applied in the same systematic manner as the business process concept.

Once it is determined that a firm enjoys a comparatively strong activity position, the next logical question is 'So what?' Achieving strong activity position is by critical to competitiveness only when the particular activity adds significant value to the end product or service.

There is a disturbing tendency today to identify characteristics such as 'quality products' and 'a good reputation' as core competencies, when these characteristics are really the result of performing discrete activities well. In failing to associate specific, underlying activities with these claimed competencies, managers are unable to focus on preserving and strengthening the building blocks that create quality products in the first place. Business analysts must dig deeper. When they do, they will find that real core competencies are tangible value added activities that are performed more effectively and at lower cost then that of the competition. These unique and enduring activities constitute a firm's core competencies. When a firm fails to correctly identify its core competencies, it misses attractive opportunities and chases poor ones.

Four Imperatives Of Core Competencies

Once the senior management develops the strategic intent to identify, nurture and organize around activities that can be made unique and enduring, a few rules must be followed to transform this commitment into competitive success.

Rule 1: Avoid laundry lists:

If senior management settles on more than a hand fill of key activities or core competencies, it is probably over reaching and certainly ignoring the intent of the word 'core'. Many successful companies have targeted either one or two key activities. Identifying key activities is one of the most important contributions senior management can make. Proposed core competencies should:

- Contribute significantly to the ultimate value of product or service.
- Represent a unique capability that provides enduring competitive advantage

- Have a potential to support multiple products or services.

Rule 2: Achieve senior management consensus on core competencies:

What business are you really in? is the basic session. Evaluating potential core competencies using the screening approach is a necessary but insufficient step in building a competency-driven organization. If competencies are to be nurtured and shared widely through the firm, senior management must reach consensus on which these are and act on the results of their selection process. In working to build senior management consensus on key activities, good results can be achieved using following approaches (among others):

- Activity-based benchmarking.
- Employee and asset distribution.
- 'What if' scenario development.

Activity based benchmarking is technique that can steer debate away from subjective opinions and toward hard fads. For example, if the vice President of operations claims that order processing and fulfillment is a core competency, he should develop a persuasive argument by demonstrating and enduring competitive advantage in order-processing speed, cost and customer satisfaction.

A compelling argument can also be built by answering some simple questions about an organization's internal configuration, for example: 'What do your employees do? Where are your assets?' If 80% of a company's employees are on the plant floor, the Marketing Vice President must argue persuasively to convince his colleagues that marketing and sales Is really a key activity. After all, people embody collective learning, which becomes a formidable competitive weapon when it is built up and shared among a large number of employees.

'What if approaches are also useful in working such a group to select core competencies? A senior management deadlock can often be broken by working out the implications of selecting a single core competency as a guide for future actions. In a deadlocked situation, one might ask, what actions are implied by the adoption of core competency 'X'? What products and markets are most attractive given this core competency? What Mill the company look after five years from now, if competency 'X' guides our actions? These same questions should be answered for earth proposed sore competency. While this approach may seem simplistic, it- can be combined with other, more analytical approaches to help the group reach consensus on a core competency (or two) that makes the most sense for the corporation.

Rule 3: Leverage the core competencies inside the organization:

Once senior management identifies and agrees on the firm's core competencies, it must work zealously to ensure that competencies are continually strengthened, shared widely throughout the corporation and managed in the way that best preserves the competitive advantages they create. The importance of this mandate cannot be stressed enough if senior management fails to organize around the key activities, they will disappear. Actions that may be necessary to best exploit the identified competencies range from physically reconfiguring disparate manufacturing processes to simply communicating more effectively. Consider the case of leading international manufacturer of electrical products. Division A developed the expertise in the design and manufacture of surface mounted printed circuit boards and used this skill to reduce the costs of its products. Division B could have benefited from Division A's surface-mount expertise and in return could have driven down costs for both divisions by increasing overall volume. Instead, Division A jealously guarded its capabilities and Division B continued to struggle. This behavior cannot be tolerated if key corporate skills are to be exploited to their fullest potential. New approaches to project coordination and interdepartmental communication can help to break down the barriers. The goal of the adaptive organization is a ensure that the best core competencies, whether embodied in technologies, process, or employees, are linked to the most promising market opportunities so that learning is maximized and travels quickly throughout the corporation.

Rule 4: Share core competencies outside the corporation as well:

Sometimes sharing and nurturing core competencies within a corporation is not enough. As markets evolve, new activities may be required. Moreover, in today's global marketplace, even giant corporations blanch at the cost of launching new products and entering new markets. With product like cycles shrinking and R&D costs skyrocketing, some companies find it easier to embrace their competitors rather than fight them.

Collins and Doorley have studied multinational alliance behavior and observe that 'the corporation of the future will need to take a more dynamic view of its business. There is often insufficient time to switch from one mode of operation to another as markets evolve {through their product life cycles}. From the very start of new business, companies must find ways of building competency in each area of competitive advantage - even if they ale not well placed to do so on their own.

Identifying core competencies and inspiring the organization to nurture and organize around them is one of the most important contributions senior management can make. In addition, selecting the wrong competency or too many core competencies is one of the worst conceivable management errors. The process of redefining core competencies should be undertaken every three to five years as part of a periodic review of corporate strategy. When any industry undergoes a fundamental change in its value-added Structure, a reassessment is critical. Often management cannot respond fast enough and heavy losses result.

Companies with a widely shared understanding of their unique enduring capabilities and the evolving value-added structure of their industries will above the competition. Firms that define their competitive advantage based on structural superiority in the discrete activities they perform are more often than not long-term winners; these companies turn their competencies into competitive weapons, not competitive traps. Thus companies can use their core competencies to gain competitive advantage.

Crltical Analysis

In order to use their core competencies to competitive advantage, firms need to first have a clear understanding of their strengths, weaknesses, opportunities and threats (SWOT). This will help them to understand their internal capabilities and capitalize on them. Firms in the same industry often make similar diversification moves, identifying areas with technology or products similar to those of existing businesses. The result is often intense competition and disappointing performance. To avoid these problems, managers should broaden their understanding of their firm's core capabilities and identify what makes their company different and unique. A company's core skills might be in particular functions, such as marketing, or they might be derived from long experience such as expertise in coping with unstable prices. Capabilities might also be based on the interaction of different fictions, as in a company where the sales and research functions work closely together to solve customer problems, or, they might involve a complex set of skills, as in a capability in administering franchises. Every firm has its own history and experiences, and even firms in the same industries will have different sets of core skills. A firm's capabilities can provide a guide to new areas of business, if it identifies businesses where it can exploit its core skills. Thus if firms make a mistake in identifying their core competencies, they will invest in areas where their resources will be wasted. Managers should be able to do optimum utilization and allocation of resources. When a firm fails to correctly identify its core competencies, it misses good opportunities and chases poor ones. Hence, proper identification of core competencies is necessary in order to be able to use them to gain competitive advantage. This is one big lesson that Indian business and industry can ill-afford to overlook if they are to remain globally competitive. And for this excellence and sustainability are the sine qua non.

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