Core Competency

Idea In Short

The concept of the core competencies is for delivering a sustainable competitive advantage in the context of future competition for achieving business excellence. Core competency embodies each capability or a set of skills or experience that helps a company to deliver unique value to customers and differentiate itself from the competition.

The most powerful way to prevail in global competition is still invisible to many companies. Very often the products and services remains undifferentiatied and this leads to restriction in the growth. It becomes very important to stay alive in the business, win the competition, and attain a leadership position in the marketplace. Resources are inputs to a firm in the production process. These can be human, financial, technological, physical or organizational. These resources are available along the strategic assets. It is important to leverage this for core capabilities and turn it into a competitive advantage. More importantly, core competences are considered the most important attributes without which a business cannot enter or survive in an industry. Competences develop from resources and skills, technology and knowledge - all together makes up competences. In a 1997 Harvard Business Review article with the propitious title, The Living Company1, Arie de Geus declared:

> In the future, the ability to learn faster than competitors may be the only sustainable competitive advantage.

Broadly, core competences evolve from unique personnel, financial, technological, physical or organizational assets and capabilities. Organizations should manage these core capabilities to establish a competitive advantage in the marketplace.

Origins

In 1990s, the concept of core capabilities gained momentum after Hamel and Prahalad introduced the idea of internally developed core competencies or distinctive capabilities as essential means for organisations to develop a competitive edge rather than their external environment influencing their market positioning. They define core competency as a harmonized combination of multiple resources and skills that distinguish a firm in the marketplace and therefore the foundation of a company's competitiveness. They wrote that a core competency is:

> an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity.

The idea of core competence as elucidated by Hamel and Prahalad urges organizations to:

> Think of a diversified company as a tree: the trunk and major limbs as core products, smaller branches as business units, leaves and fruits as end products. Nourishing and stabilizing everything is the root system: Core competencies

Core competences can be identified by checking three criteria, if it:

1. Provides potential access to a wide variety of markets
2. Can make a significant contribution to the perceived customer benefits of the end product, and
3. Is difficult for competitors to imitate

In other words, Prahalad and Hamel defined core competence as the ability of a firm to learn collectively how to coordinate various technologies and skills within the organization in order to deliver better value. Later on, they expanded the definition into:

> skills and technology that enable a company to provide benefits to customers.

Subsequently, there was considerable debate as many theorists presented different viewpoints. For example, Porter advocates the positioning view following the success of his strategy that dominated the 1980s. Since the 1990s, the resource based view of the firm has

increasingly come to dominate the field of strategic management. This resource based view extends to dynamic capabilities and environments in which organizations and industries operate.

Case - Pharmaceutical Industry

For example in the pharma industry, to survive or operate successfully, players should, at a minimum, demonstrate specialized understanding of the human anatomy, biotechnology, drug research and manufacturing processes, and regulatory complienace to operate. Each player in the industry needs to possess these competences to survive in the long-term. However, core competences are unique skills and abilities by which a player could differentiate itself from its industry peers and establish a competitive advantage. These competences could entail a superior research capabilities, manufacturing technology, patents or proprietary tools or processes that others cannot easily imitate or obtain. Hence, core competence is a distinctive capability that enables an organisation to perform above the average industry performance.

Core Competency Effect

For an organization, its core competency refers to its capabilities, knowledge, skills and resources that constitute its defining strength. A core competency is distinct to the organization. Therefore, it cannot be easily replicated by other organizations, whether they're existing competitors or new entrants into its market. Focusing on the core competences establishes a link between a firm's diverse production and technical skills that leads to a sustainable competitive advantage and erects high barriers for competitors to imitate. Organizations demonstrate distinct behaviours when organized as a portfolio of businesses as opposed to a portfolio of competencies. This was evident across a wide range of industries as demonstrated by the success of companies, such as Canon, Honda, Sony, Yamaha, and Casio that were able to produce unexpected products by operating at a lower cost and building core competencies more steadily than their competitors. These organizations had to coordinate, integrate and organize the various technological and production skills to produce innovative and valuable final products. Sony and Casio's capacity to miniaturize electronic gadgets by combining a variety of skills to provide customers with value is a case in point. Core competency substantially contributes to the products and services that a company offers to its customers. Another advantage to this is that it cannot be easily imitated by the competitors as they are the strengths in where the

company invests. Many companies may have not fully understood and leveraged the concept of this framework and must realize the potential. So, the managers of such companies need to be able to identify and evaluate their company''s unique skill sets, and the technologies that distinguish them from other businesses. Such companies can determine the core competencies they have to start with by identifying the underlying skill, ability, knowledge, experience, technology, or process that enables companies to provide their unique set of products or services. Hence, It becomes essential for companies to determine core competencies to develop strategic responsiveness to gain a competitive advantage. High-performing companies develop new core competencies and expand their existing ones to enter new and future markets to achieve what most companies only attempt. A company at this level of functioning recognizes the needs and wants of customers in new and future markets and develops the competencies necessary to meet those needs and wants. Because the core competencies are complex and intangible, the nature of the resources and competencies that support them should be investigated first. The fundamental purpose of doing this is to determine the resources and skills that serve as the foundation for existing or potential core competencies. In most cases, only those competitors who consistently perform above the industry average possess core competencies or distinctive capabilities. There are numerous ways to differentiate core competencies from general competencies. They are distinctive to the company, more complicated, difficult to duplicate, relate to meeting the requirements of customers, add more value, and are based on superior organizational skills and knowledge.

> Apple, known for its innovation, came up with the Mac by utilizing its core competency in designing computing devices with exceptionally elegant ease of use, and it improves its ease of use in unimaginable ways even before its market entry. Apple's competitors, such as IBM, were spending at least 100 times more on research and development. As a result, a core competency becomes an advantage in the market.

Leveraging Core Competences

Companies with strong core competencies are better positioned to lead in their respective markets. These competencies enable them to set industry standards, shape market trends, and establish themselves as leaders in innovation. Companies use core competencies to:

- Gain competitive advantage by excelling in specific areas, thereby differentiating themselves from competitors and attract the customers who value those unique strengths
- Focus on what they do best which thereby results in more effective resource allocation, better decision-making, and a streamlined business strategy
- Drive innovation and product development by utilizing their unique capabilities as a foundation for creating new and improved products or services, thereby staying ahead of market trends, and meeting customer needs
- Make strategic alliances and partnerships by collaborating with other organizations that complement their strengths which can lead to mutually beneficial relationships and the creation of new value
- Increase the cost efficiency by streamlining processes and operations which reduce waste, and improve overall efficiency, leading to cost savings
- Build brand identity where customers associate a company with its specific strengths or expertise, thereby enhancing the brand's reputation and trustworthiness in the market
- Adapt more effectively to changes in the business environment and evolving their core competencies. This adaptability is essential for staying relevant and competitive in dynamic markets
- Help employees understand management's priorities through various ways like allocating tasks and projects under the categories of Important, Urgent, Important and urgent, and neither. This is crucial for any company to be on top of the game, delivering favorable results on time
- Employee Development and engagement by making the employees update their skills and get expertise in the trending technology which also enhances employee satisfaction
- Integrating the use of technology in carrying out business processes depends on where the company is under this purview. This affects not only the customers but the employees as well. This adds to their productivity, empowering them to deliver more and better. This requires a thorough analysis of where the industry is at right now, is there something innovative through technology that can be driven and delight the customers and employees
- Form the basis of strategic planning which guides the company''s long-term decision-making like setting of goals, allocation of resources, and navigating challenges in alignment with their unique strengths
- Design competitive positions and strategies that capitalize on corporate strengths

- Unify the company across business units and functional units, and improve the transfer of knowledge and skills among them through cross-functional learning development programs. The emphasis must be to make sure every organization employee is aligned with the mission and vision
- Deciding where to allocate resources is a critical factor as attention should be paid by the company to leverage where there is desirable scope
- Making outsourcing, divestment, and partnering decisions is a wonderful option and many companies prefer to outsource the resources which are time-consuming, requiring unique expertise or industry new advancement. It saves time and effort
- Invent new markets and quickly enter emerging markets using Ansoff's matrix to get a clear idea of the scope of product/market expansion. This will require research about the existing customer and market trends. Results can significantly give a competitive edge to becoming a leader
- Enhancing image and building customer loyalty is crucial for the overall brand image and growth of the company. The company must see the intensity of the gap between the customer and itself. They must be active across all social media channels, addressing queries, taking feedback and working on resolving in specified TAT, and exploring more ways to delight their journeys. Customer loyalty must be built through value being added to get advocacy about the company's core competencies

Characteristics Of Core Competencies

There are three tests for core competencies:

1. Potential access to a wide variety of markets
2. Add customer value, and
3. Is difficult to imitate

Potential Access To A Wide Variety Of Markets

The core competency must be capable of developing new products and services for new and emerging trends. This will be a guiding force for the company to become a leader or challenger in the marketplace. For example, Nike has been able to evolve its global presence through the careful selection of international sponsorships in championships and tournaments. These partnerships have certainly helped the brand capture the attention of a

global audience. By putting the power of design into the hands of the consumer, Nike can deliver customized products that align with different cultural preferences and styles.

Add Customer Value

A core competency must make a significant contribution to the perceived benefits of the end product for adding value to the customers. In 2008 Samsung set out on a mission to shake up the TV sales industry and align their products with a major shift in the way that consumers were now interacting with media content. The rise in the on-demand generation threatened the very existence of TV sales, with consumers turning to laptops and smartphones to access their content. Instead of simply offering their customers a TV, Samsung developed a revolutionary system whereby multiple devices could be connected and played through the system. They also identified a significant shift in the way consumers were accessing media and therefore included an app store where services like Netflix could be downloaded. Without a huge jump in the cost of one of these sets, Samsung added immense value that other manufacturers simply weren't offering.

Difficult To Imitate

Core Competencies should be difficult for competitors to imitate. In many industries, such competencies are likely to be unique. There are many ways to halt such breakthroughs as copyrights or patents and certifications. It might be possible that competitors might fail in pursuing the same. Companies can set their benchmarks so high that it becomes difficult to imitate to make the difference in the quality of products and services visible.

Actions Required To Develop Core Competencies

- Isolate its key abilities and hone them into organization-wide strengths using include in many ways. This can be done on the function level and broad organization level. Key abilities must be leveraged to extend the potential of the company. Prahalad and Hamel thought of the diversified corporation (say, Honda) as a tree, with its roots as its core competencies (know-how and ability to produce lightweight engines, in Honda's case)
- Compare itself with other companies with the same skills to ensure that it is developing unique capabilities. This parallel comparison is important to keep the company's growth aligned in the forward direction. Understanding what competitors are doing beyond their boundaries in any functionality makes a company realize the

shared purpose of the company

- Develop an understanding of what capabilities its customers truly value, and invest accordingly to develop and sustain valued strengths. Honda's superior design capability has enabled it to build high-quality, innovative, and reliable products. Therefore, research and development, and developing manufacturing processes, systems, and equipment used to build all Honda products are where the company invests diligently
- Create an organizational roadmap that sets goals for competence building. Across the company, the senior to mid-to-lower management must set this roadmap in the form of a short and long-term plan. For this Hoshin Kanri framework is a perfect framework to keep all the employees aligned with the purpose, values, and mission of Honda
- Pursue alliances, acquisitions, and licensing arrangements that will further build the organization's strengths in core areas. Strategically this can be achieved with a thorough analysis of the industry trends. It is a wise decision to outsource those resources where the company does not have the expertise or prior experience. Similarly, acquisition can be done if it is desirable by the company and by pursuing alliances mutually with other parties to seek better advancements in the form of skills and knowledge
- Encourage communication and involvement in core capability development across the organization. Honda emphasizes two-way communication with supervisors in associate development and evaluation, and all associates have at least three interviews with their supervisors each year. During the first interview in April, associates come out with a clear vision for the future and their direction going forward through their supervisor's advice. They then work out their individual role based on the organization's business goals for the fiscal year in question. During interviews in June and December, supervisors evaluate associate performance and initiatives during the preceding six months and feedback each associate's strengths and weaknesses. Additionally, by facilitating a discussion of subjects such as future objectives and career directions, the interviews pave the way for associates' skill development and raise motivation
- Preserve core strengths even as management expands and redefines the business through better hands on the team. Encouraging the team to come up with innovative ideas and creating that kind of culture to promote the uplifting experience and hiring greater talent.

Sustaining Competitive Advantage

To sustain competitive advantage, competencies need to score well on four dimensions:

1. Appropriability
2. Durability
3. Transferability
4. Replicability, and
5. Flexibility and Adaptability

Appropriability

The extent to which someone other than the company where the earnings were created can usurp the profits made by a competence. Profits are more enduring when the asset's appropriability is lower.

Durability

How long will competency continue to generate income? Most competencies are less durable than they were a decade ago due to shorter product and technology life cycles

Transferability

The sustainability of its competitive edge decreases as essential abilities and resources become more transferrable.

Replicability

The competitive advantage cannot last if a nearly identical set of capabilities can be built by making the right investments or buying a comparable asset for a rival.

Flexibility and Adaptability

A core competence can also foster an agile and adaptive organizational culture by investing in continuous learning and development. Regularly assess the competitive landscape and be prepared to pivot or adjust strategies as needed. Managers should devote time, energy, and money to improving their critical competency if they want to maintain a competitive

advantage. Understanding that such a competency exists and realizing that it affects the firm's competitive advantage is the first step towards acquiring crucial competence.

Drawbacks Of The Model

The core competence, in the opinion of management academics like Prahlad, has significant drawbacks as well. When a business incorrectly classifies a certain product or **strength** as a core competency, issues may occur. This can be particularly problematic if you're preoccupied with concentrating on constructive aspects that don't exist. Companies cannot waste time on concepts that could have been used to leverage a strength if such a scenario were to arise. Another significant downside of the notion of core competency is that it could discourage an organization from pursuing excellence. For instance, depending too much on one advantage can cause issues later on. Especially considering how the market is expected to change as new trends emerge. Companies must concentrate on long-term strategies to prevent a lack of sustainability, such as creating a strong corporate culture, showcasing patented products, and entrusting. It is more helpful in describing why something went well or poorly than it is in foretelling what will go well or poorly. For instance, innovation guru Clayton Christensen believes that core competence is overly internally centered. Companies need to ask what customers value rather than what they are good at. To avoid continuing to exploit existing skills, they must instead acquire new ones as needed. It's interesting to look at how a few businesses have gained a competitive advantage in less favorable industries by using their resource capabilities and expertise.

Case - Dyson

Dyson is one such company into manufacturing alliances which is a perfect example for a company that has achieved a competitive advantage with its distinctive bag-less vacuum cleaners. To identify the capabilities and competences of Dyson that generates a competitive advantage a comprehensive analysis of the firm''s resources by category, specificity and performance is done. First analysis by category: Human, financial, tangible or physical is carried out. With its headquarters in a rural part of the west of England and it has a dedicated testing facility in Malaysia. James Dyson featured in the advertisements himself and firmly believed his own image and personal brand was major for the promotion of the firm. Dyson strongly believes in patents to protect the innovative ideas from being copied. The distinctive feature of Dyson dual cyclone vacuum cleaner is the adoption of an entirely new technology and its commitment to design. With special emphasis on the product

engineering unit that develops prototypes using specialized computerized technology and other methods to practice and test new ideas. Then according by specificity, which is industry specific knowledge and skills. Dyson takes special care by employing skilled and creative people with full of fresh and out of the box ideas. Design is deeply embedded in engineering and is clearly evident from the company''s products whether it is their washing machine or vacuum cleaner it stands out because of this. Non-specific resources tend to be more flexible and form the basis of competences whereas these industry-specific resources form the foundation stones for building core competencies. Then resources can be evaluated on the basis of its contribution to measures of performances such as financial and in comparison with competitors. In 2005 it was able to reach £100 m profit despite selling fewer vacuum cleaners than chief competitor Hoover. Unlike Apple known for its innovative design which subcontracts all manufacturing Dyson believes it is a blend of engineering, design and manufacturing that results in a competence that cannot be imitated by others and is particular about protecting each differentiated product through patenting. Dysons competitive advantage can be explained in terms of its unique, innovative products, engineering and design, manufacturing, marketing and brand promotion. Thus it has gained a good reputation for producing unique (difficult to be imitated by competitors) products by adequately focusing on customer needs.

Case Study - Honda Motors

Honda is a multinational Japanese corporation primarily known for its automobiles and motorcycles. It is the largest manufacturer of motorcycles and internal combustion engines measured by volume producing more than 14 million internal combustion engines a year. Apart from core automobiles and motorcycles Honda also manufactures garden types of equipment, marines engines, and personal watercraft. They have recently ventured into the aerospace industry with GE Honda Aero engines. The Honda jet was scheduled in 2011. The core competencies of Honda are:

- R&D: At Honda's Auto Development Center new heights are being achieved by sharing new and improved ideas, patenting innovations, and recognizing and rewarding creativity. strengths lie in product and process innovation, primarily in designing new vehicle models and features and in conceiving fresh techniques for building them faster and better. Consequently, their success as managers is measured not by quarter-to-quarter results but instead by how well they cultivate individual creativity throughout the organization and how well they disburse Honda's

unique corporate culture to its decentralized localization strategy to produce continuous innovation

- Financial Resource
- Manufacturing: Honda is the leading engine maker in the world with an output of more than 20 million internal combustion motors annually. Honda can seamlessly produce multiple autos on a single assembly line, one after another, and switch a line over to a newly designed vehicle within hours. The combination of core competencies led to the core product i,e, engines which they diversified into many businesses like automobiles, motorcycles, power products, Honda jets, and robotics

Case - Ryan Air

The budget airline pioneer Ryanair achieved a competitive advantage by following a low cost strategy which was adopted from the successful southwest airlines [US] model. Ryanair''s major resource capabilities include the physical resources such as its headquarters in Dublin, a younger aircraft fleet policy which leaves lesser carbon footprints hence spends only lesser taxes and penalties and using secondary airports. When it comes to the company''s human resources it has 7245 employees. The financial resources of the company come from the Ryan family, investors, shareholders and creditors. Intellectual capital-knowledge includes the company''s website, lower access fees at secondary airports, providing ancillary services. Ryanair is clearly a low cost leader and considered as Europe''s favorite low fares airline despite heavy competition from other low-cost airlines by sustaining the competitive advantage by practicing a number of measures. These include its ability to cut down costs to sustain low fares at the same time remain profitable which is done by following a fleet commonality policy as the Boeing 737-800 which is the most common aircraft used, the firm is able to drive down costs in obtaining spares and maintenance services. By contracting out services such as aircraft handling, ticketing, baggage handling and other functions to third parties it reduces direct exposure to employee relations, the need to handle potential disputes and responsibilities. Moreover the firm is able to obtain competitive rates and multi-year contracts at fixed prices for ground handling which limits costs. To reduce airport charges such as landing fees, passenger loading fees, aircraft parking fees and noise surcharges to the bare minimum the firm tends to avoid congested primary airports and flies to secondary airports. The company controls employee compensation costs by implementing a performance related pay structure. By adopting the internet technology it is now capable of targeting customers directly rather cutting travel agent commissions. The firm''s main advertisement tools are newspapers,

radio, television and the company website. It had adopted cost-cutting measures for passenger check-in and luggage handling by introducing priority boarding and web-based check-in thus saves staff, airport facilities and time. Charging for check-in bags resulted in passengers carrying fewer bags or even zero check-in luggage thus enhancing speed and saving on costs. Major competences of Ryanair were operating flights at lower fares and cost cutting policy it followed. It has core competence in its use of information technology that can support its management and marketing operation. Critical success factors include innovation, low fare tickets, punctuality and website.

Case - Amazon

Amazon is another excellent example of a company that swept past the traditional book business by using the internet to reach to customers and its success can mainly be attributed to its business model and its strategic competences and capabilities. The company had grown enormously well from a virtual book seller to selling diverse range of products online such as music CDs, software, office products, electronics, toys, games, cookware, hardware, food, and health products increasing its revenue manifold by this way. The company had gone global by establishing websites in many countries. The company is favorably located in Seattle as there was a large supply of computer software talent available and followed a strategic recruitment policy. Amazons major resources are its specialized fulfillment centers, a reliable web infrastructure and the process of maintaining and managing the infrastructure. The internal capabilities that contribute to the competitive advantage are scalable Information technology in place, availability of the largest and most sophisticated collection of online retailing technologies and intangible resource is the way it centrally manages the web services. Competences include use of recyclable cardboard for packaging. Since the company had already incurred fixed costs for developing software for the online store its expansion into other product categories would help to spread these costs across a greater pool of transactions thereby increasing the profits. Typically by this the company saves through economies of scale. And the competences that provide competitive advantage are its online product searching, ordering and reviewing facilities. By moving into new product categories it gains significant growth opportunities and has gained a reputation for the brand and has a loyal customer base by providing consistent and timely services. The company''s retail offering that includes the innovative one click technology concept by which it reduces the transactional burden on customers and enables them to quickly ease through the ordering process. The company successfully obtained a patent for this and stalled its use by its chief rival Barnesandnoble.com. Another very important

competence is its outstanding CRM and website personalisation. The affiliate program, successful partnering, auctions and Zshop initiative by which it got into the store hosting business had all proved to be profitable and thus had helped amazon go beyond retailing.

Case - Apple

Apple Inc., founded on April 1, 1976, by Steve Jobs, Steve Wozniak, and Ronald Wayne, is a global technology company headquartered in Cupertino, California. Renowned for its innovative products and iconic design, Apple has played a transformative role in the tech industry. Its key products include the iPhone, iPad, Mac, the Apple Watch all operating within the seamlessly integrated iOS and macOS ecosystems. Apple's retail stores, iTunes (now largely replaced by Apple Music), and the App Store are pivotal components of its business model. Recognized for its commitment to design aesthetics and innovation, Apple has consistently introduced groundbreaking products such as the iPhone, which revolutionized the smartphone market in 2007. Under the leadership of CEO Tim Cook since 2011, Apple has expanded into services like Apple Music, Apple Pay, iCloud, Apple TV+ contributing to its financial success. The company has also made environmental commitments and focuses on sustainability. The core competencies of Apple Inc. are:

1. **Innovation:** The firm operates in a competitive technology industry with rival firms providing similar products as Apple. However, innovation is a crucial core competence that has enhanced the organizational growth of this organization. The financial period ending 2008 was remarkable as Apple integrated innovation as a driving factor of success. This attribute has been useful in developing cutting-edge technology devices, evidenced in smart devices and applications
2. **Leadership style:** It is another core competence at Apple that has ensured effectiveness and efficiency in developing innovative products. The period of 2008 was financially critical as the global economy was experiencing a financial crisis. Many companies faced economic challenges regarding the management of resources, including financial and human capital. Most importantly, Apple was strategic in adopting the transformational leadership style, which has ensured organizational sustainability
3. **Stakeholder satisfaction:** It is another core competence that has ensured success in a competitive industry. The company ensures the fulfillment of critical requirements amongst its stakeholders. For instance, innovation has ensured that customers acquire high-end products such as smartwatches, applications, and

handheld devices

4. **Research and Development(R&D):** Apple's research and development (R&D) capability stands as a cornerstone of its success, driving innovation and enabling the company to consistently introduce groundbreaking products that redefine user experiences. Apple's R&D efforts encompass a wide range of disciplines, including hardware, software, and user interface design, fostering collaboration and cross-pollination of ideas. The company's commitment to R&D is evident in its substantial investments, with Apple consistently ranking among the top spenders in the technology sector. This dedication to innovation has been instrumental in Apple's creation of iconic products like the iPhone, iPad, and MacBook, cementing its position as a leading force in the global tech landscape.

The combination of core competencies led to the core product of smartwatches, applications and handheld devices.

Summary

Core or distinctive competencies that set a company apart from the competition are known as core or distinctive capabilities. Capital, assets, brand equity, strategic planning, and creative thinking are just a few examples. All of this is necessary to generate the desired output and incorporate it into other final products. Examples of key competencies for business include Excellent customer service, Recognizable global brand Product innovation, customer-centeredness, and standardized manufacturing quality. Any firm must identify its key strengths or unique selling points. They can use it to pinpoint the qualities that make them stand out from their competitors. Additionally, it increases their self-esteem and encourages them to keep up the creative effort. Discovering and developing a company's core competences adds great value to the organisations performance in a competitive environment. Hence it pays to rethink the organisation as a portfolio of competencies to succeed in the long term.