

Core Competency (A new model)

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Abstract

Survival of local companies is the main and vital issue, especially when the country facing the globalization. Core competency development, along with other techniques helps such companies to overcome their competitors. This paper, fully explains eight stages model for developing core competencies for such companies. Then, paper presents the result of these 8 stages' implementation in Iran. Collection of main managerial resources, combination of capabilities and integration of competencies and strategic plans for Cooperative Companies toward core competencies building are the main outcomes of this paper.

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• Introduction

A company competency is what it can do better than its competitors. A core competency can be anything from company development to employee. Core competencies extend to core products. Core products are not sold to end customers, but are used for manufacturing a large number of end products. Core products are tangible link between identified core competencies and end products. Honda's engines and microchips and etc. in Japan, for example, are core products, linking between design and development skills that ultimately lead to a large number of end products. Core products are the components or subassemblies that actually contribute to the value of the end products.

Core competencies are built on individual intangible or groups of intangible assets that constitute and embody the organization's capabilities, skills, knowledge, experience, people, resources and intellectual property.

Core competencies can not be easily duplicated by competitors; however they also would be difficult to replace if destroyed or damaged. These are the source of the company's ability to deliver unique value to its customers. They are not to be mistaken with "leading-edge technologies", "world-class manufacturing", or other "production-driven" abilities.

Examples of core competencies:

- After-sale supports and services capability of Caterpillar,
- Just-in-Time inventory, self-managing teams and flexible manufacturing in Toyota corporation,
- Camcorder in Sony corporation,
- Digital piano in Yamaha corporation,
- Laser technology in Philips corporation,

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- LCD color small screen television in Casio corporation,
 - Developing pressure sensitive tapes, magnetic tapes, photography film and coated abrasive in 3M corporation,
 - Power trains and engines in Honda corporation,
 - Optic and microprocessor knowledge of Canon corporation,
 - Film making and animation capabilities in Walt Disney Corporation and etc.

Organizations have various types of resources that enable them to accomplish various strategies. Carrying out these strategies bring competitive advantages in order to make use of resources efficiently which can not be easily duplicated by the competitors.

In other words, exact analysis of resources, capabilities and competencies lead to a better understanding of competitive advantages, so it provides compatibility between environmental opportunities and internal strength points.

• **What is a core competency?**

Three examples of definitions presented below, for core competencies are:

1. The collective learning in the organization, especially how to coordinate diverse production skills and integrated multiple streams of technologies¹.
2. Intangible or the bundling of intangible assets, which cannot be easily duplicated by competitors; however they also would be difficult to replace if destroyed or damaged².

1. Hamel and Prahalad, 1990

2. Whitehall, 1997

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3. A unique combination of technologies, knowledge and skills that are possessed by one company in the market.

A core competency is usually the basis for a whole variety of end products and services, now and in the future. Core competency has various attributes such as complexity, invisibility, inimitability, durability, appropriability and non-substitutability¹.

- **How can core competencies be established?**

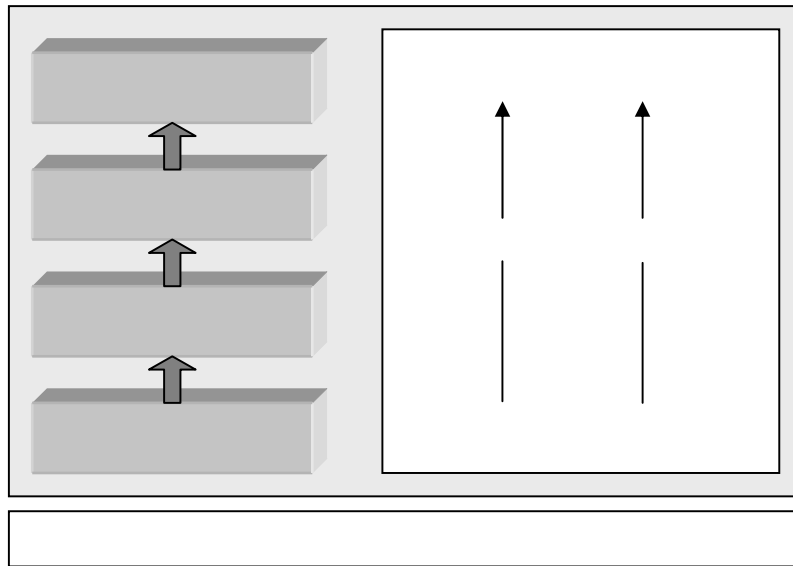
In order to establish core competency in an organization, two basic questions should be answered:

1. What is the exact definition for resources, capabilities, competencies and core competencies?
2. How does organization identify its competencies?

- 1. Definition of resources, capabilities, competencies and core competencies.**

The first step in successfully identifying and exploiting a company's competencies is to create a universal understanding among all management levels including concepts of core competency, capability and organizational resources. Figure 1 shows the starting point of core competency:

1. Petts,1997



a. Resources:

At the bottom of the hierarchy are resources. They are the building blocks of competencies. Resources are the inputs of an organization's value chain. Resources could be categorized into three groups:

- 1) Physical resources such as plant, equipment, location and assets;
- 2) Human resources such as manpower, management team, training and experience and,
- 3) Organizational resources such as culture and reputation.

b. Capabilities:

Capabilities refer to the corporation's ability to exploit its resources. They are the second level in the hierarchy and consist of a series of business processes and routines that manage the interaction among its resources. For example, a company's marketing capability can be based, among other things; on the interaction among its manpower (marketing experts), technology (computer hardware and software) and financial resources.



c. Competency

A competency, the third level in the hierarchy, is a cross-functional integration and co-ordination of capabilities. In a multi-business corporation, competencies are a set of skills and know-how housed in SBU¹s. Such a competency may be the consequence of integrating MIS² capability, marketing capability, R&D³ capability and production capability.

d. Core competency

Core competencies, the highest level in the hierarchy cross SBU boundaries. They result from the interaction between different SBUs' competencies. Core competencies are skills and areas of knowledge that are shared across business units and result from the integration and the harmonization of SBU competencies.

Several features are important about the hierarchy in Figure 1.

- Point 1. Each level in the hierarchy is based on level below. It results from the integration of the elements in the lower level.
- Point 2. Each level contains a higher level of value added for the company. Resources themselves add little value. Functional capabilities generate value by deploying resources. Competencies add greater value, because they expand the boundaries of capabilities.
- Point 3. The higher levels of the hierarchy have broader organizational scope meaning that they are more difficult to accomplish.

1. SBU- Strategic Business Unit
2. MIS- Management Information System
3. R&D- Research and Development

Developing a functional capability requires co-operation of the individuals in one function.

In the other words, achieving core competency needs to bring important concepts that simplify knowledge transfer between organization's internal layers and SBUs.

- **Relations between Competencies, Capabilities and Strategic Hierarchy**

Figure 2 shows how the hierarchy of competencies relates to the hierarchy of strategies in a multi-business company:

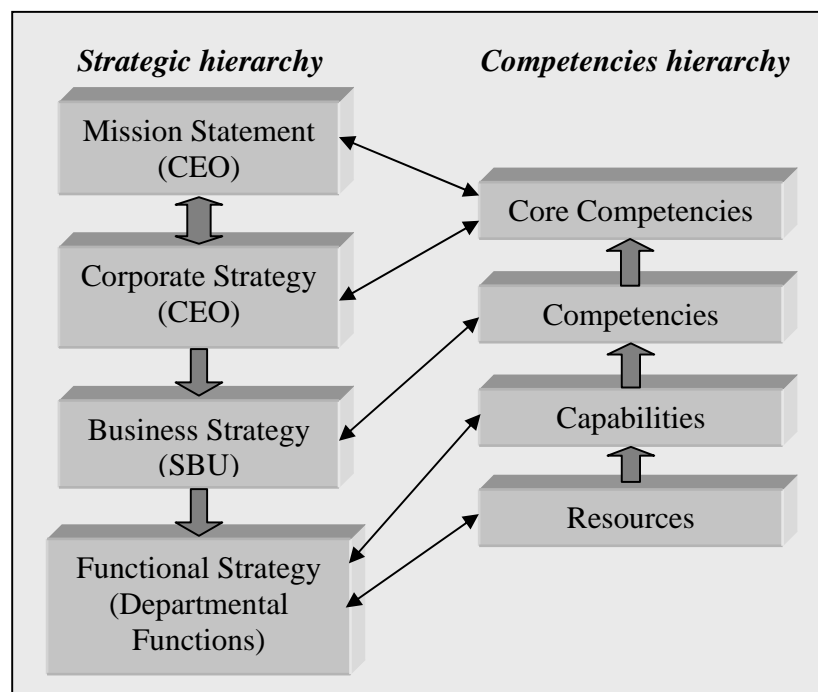


Figure 2: Competencies, Capabilities and Strategic hierarchy.

Note: Companies need the following three factors in transforming capabilities to competencies:

- To share total thoughts and ideas,
- To share total skills,
- To develop supportive platforms in company.

2. How to identify the company's capabilities, competencies and core competencies.

The participants in the processes of defining core competencies, develop teams containing as many people (45 people for example) that can be involved in such an exercise from different parts of the company

Members of these teams would participate in workshops in order to be trained in core competency concepts and complete 8 steps in various sessions as follows:

First step:

At ... (name of your company) ... we know how to ... very well

As pointed out earlier, competencies are based on skills and know-how. They are any aspect of value chain where the company particularly does a good job.

For example:

- Appropriately, managing project
- Uniquely, after-sale support and services
- Relying on systems instead of relying on people
- Production at minimum cost

Second step:

Is this know-how present in one function, one SBU, or across the corporation?

The purpose of this question is to decide, what the company does best, i.e. is it a; capability (functionally based), a competency (SBU based), or a core competency (cross-SBUs)?

Third step:

Are we any better in identified competencies or core competencies than our competitors?

Answer to this question enables managers to discuss the corporations capabilities and competencies in relation to their industries. The industry at least, can collect the relevant information through its key stakeholders. These groups include retailers, wholesalers, end-users, suppliers and strategic alliances and partners.

Therefore, in this step, “Doing know-how” develops a competitive advantage for the company?”

Fourth step:

Does it matter?

At this stage, it is important to distinguish and link two critical concepts: Competitive advantage and core competency.

A *competitive advantage* is any aspect of the company's resources, capabilities and competencies that provides an attractive relative competitive position.

- A competency brings the company to a different situation, as it is better at identifying platforms than its competitors.
- Does this competency bring the value attributes such as quality, price, and after-sale services to the company? (In the other words, it must be identified, “does it matter to the company, that competency result in a competitive advantage?”)
- It is also true that not every competency or capability results in a competitive advantage.

Fifth step:**How durable is our advantage?**

Important capabilities or competencies can create competitive advantages for the company.

The following variables help determine the durability of a company's competitive advantage:

- a) The firm's ability and willingness to continuously invest in related competencies and capabilities: Maintaining and/or expanding a competitive advantage usually require continuous improvement to ensure that the firm stays at the forefront of the relevant competencies and capabilities.
- b) The competitor's ability to duplicate the firm's competitive advantage: A typical response by the firm's competitors is to try copying its competencies and capabilities but some sources of competitive advantage are harder to be duplicated than the others.

Economists have generally identified the following aspects as potential deterrents of competitive imitation:

- *Unique resources*: patents, places, mineral rights or exclusive airline routes are examples of resource that are hard or impossible to copy.
 - *Path dependency*: many competencies, capabilities and competitive advantages develop, evolve, and accumulate over time. The fact that the firm currently has a competitive advantage is the result of many steps that it has taken previously.
 - *Causal ambiguity*: The success of competitors' attempts to copy a firm's competitive advantage will also depend on their ability to simplify the process through the particular competency or capability has created and sustained. Their ability to reverse-engineering a capability and determine its components will facilitate and speed the process of imitation.
 - *Economic deterrence*: While it may not be hard to discover the sources of a competitive advantage, the competitor may still choose not to imitate it because of economic deterrence which could be caused by first mover advantage resulting from a pre-emptive strategy by the firm that made the initial investment and thus signaled its commitment.
- c) The competitors' ability to develop equivalent substitute advantages and competencies.
- d) The context to which the product/ delivery attributes continue to remain key buying criteria. For example: price, quality, after-sale services and etc.

Managers of Strategic Committee of a company answers to above stage show that all of the items which were known as comparative advantage in previous step (4th step), are durable items.

Following stages shows core competency achievement follow up for each organization that must be completed in each Companies.

Sixth step:

What are the key changes taking place in the industry?

Most of questions up to now have used a static approach. They were designed to identify the firm's current and historical competencies and capabilities. In this step, evaluation of external factors of the future will follow the internal factors. This would bring flexibility to the onward competencies.

Seventh step:

Given the key changes taking place in the industry

- a) How the existing resources, capabilities and competencies could be better leveraged?
- b) Which capabilities or competencies is or will be unusual or irrelevant?
- c) Which competencies or capabilities should further be improved?
- d) What new competencies or capabilities should be developed?

Companies can take a variety of approaches in acquiring the new competencies; they can develop them in-house by making the necessary investments in technology and manpower, or they can acquire them through partnership, alliances, managers or acquisitions. The choice of the

appropriate alternative on the required speed and timing of acquiring the competency require the appropriate level of control and the financial resources.

Eighth step:**Where do we go from here?**

Specific plans along with time frames need to be developed for the followings:

1. Dismantling or adjusting those capabilities or competencies that will lose their values in the future.
2. Sustaining and improving identified new resources, competencies and capabilities.
3. Increasing leverage for the identified resources.
4. Developing identified new capabilities and competencies.

Any implementation plan should start with a set of objectives regarding each one of the above four items, along with a time frame, specific action steps and the managers or units accountable for results.

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