Business Strategy

Unit – 4: Core Competency

Components of Internal Analysis

Strategic Competitiveness
Above-average returns

Competitive Advantage

Discovering Core Competencies

Core Competencies

Capabilities
Teams of resources

Resources
* Tangible
* Intangible

Four Criteria of Sustainable Advantages

- Rare
- Valuable
- Costly to Imitate
- Nonsubstitutable

Value Chain Analysis

- What to do in-house
- What to outsource

Core Competencies

- Capabilities that the firm emphasizes and performs especially well while pursuing its vision.

- Core competencies help the firm achieve a competitive advantage when the firm's core competencies are different from those held by competitors.
- Core competencies enable a firm to complete activities effectively.
- Distinctive competencies provide products to customers that are superior to those provided by competitors.

Managing Resources to Develop Capabilities and Core Competencies

Examples: Core Competencies

- Expertise in integrating multiple technologies to create families of new products
- Know-how in creating operating systems for cost efficient supply chain management
- Speeding new/next-generation products to market
- Better after-sale service capability
- Skills in manufacturing a high quality product
- System to fill customer orders accurately and swiftly

Peripheral Competencies

- They serve to support the continuing development and maintenance of the CCs.

- The ability to acquire essential resources such as labor and capital is especially important in the contemporary environment of the hospitality industry.

- Please read pages 259 through 261 in the text book for further information.

Core Competencies

- What a firm does that distinguishes it from its competitors and is, therefore, strategically valuable
- An integration of capabilities
  - Examples: customer service, engine technology
  - Not a product or a single skill
  - Emerge over time–may take 5-10 years to develop
  - Become more valuable with use
  - Often learning and knowledge based
- Firms should focus on 3-4 core competencies
- Can become core rigidities if they are no longer competitively relevant

Key Questions for Managers

- How do we assemble bundles of resources, capabilities, and competencies to create value for customers?
- Will environmental changes make our core competencies obsolete?
- Are substitutes available for our core competencies?
- Are our core competencies easily imitated?

Four Criteria of Sustainable Advantages

- Rare
- Valuable: help a firm exploit opportunities or neutralize threats
- Costly to Imitate
  - Unique historical conditions
  - Casual ambiguity
  - Social complexity
- Nonsubstitutable: no strategic equivalent (cannot achieve same outcome or strategy using different capabilities)

Outcomes from Combinations of the Criteria for Sustainable Competitive Advantage

Valuable	Rare	Costly to Imitate	Nonsub-stitutable	Competitive Consequences	Performance Implications
NO	NO	NO	NO	Competitive Disadvantage	Below Average Returns
YES	NO	NO	YES/NO	Competitive Parity	Average Returns
YES	YES	NO	YES/NO	Temporary Competitive Advantage	Aver./Above Average Returns
YES	**YES**	**YES**	**YES**	**Sustainable Competitive Advantage**	**Above Average Returns**

Value Chain Analysis

A typical value chain analysis can be performed in the following steps:

- **Analysis of own value chain** – identify the primary and support activities. Each of these activity categories needs to be broken up into its basic components and costs are allocated to every single activity component.
- **Analysis of customers and suppliers value chains** – examine how does your product fit into the value chain of the customer and the supplier.
- **Key Activities -** Identify activities that differentiate the firm and the potential cost advantages in comparison with competitors
- **Identify potential value added for the customer –** how can our product add value to the customers value chain (e.g. lower costs or higher performance) – where does the customer see such potential?

The final step is to identify those activities that provide a differential advantage compared to competitors.

These are the competencies or the core competencies of the organization.

Cost leadership requires reduction in the costs associated with the value chain activities. There are 10 drivers for cost reduction:

- Economies of Scale,
- Learning
- Capacity utilization,
- Linkages between activities,
- Interrelationships with suppliers and buyers
- Degree of Vertical Integration
- Timing of market entry
- Generic Strategy
- Geographical location, and,
- Institutional factors.

Differentiation stems from uniqueness. This uniqueness can be achieved either by changing the value chain activities to provide uniqueness to the product, or by reconfiguring the value chain. Drivers are:

- Policies and decisions
- Linkages between activities,
- Timing,
- Location,
- Interrelationships,
- Learning,
- Integration,
- Scale, and
- Institutional factors.

Outsourcing: The priority between various activities is determined by a Value Index:

Value Index (VI) = Value/Cost = Utility/ Cost = Function/ Cost

If the Value index is less than 1, it is not worth the cost incurred and are candidates for outsourcing;

if Value index is greater than 1, it provides value to the organization.

The organization has to identify those activities that add value and those where the value added does not justify their cost.

For activities that have a Value index less than 1, the disadvantage can be mitigated using one of these two strategies or a combination of both;

(a) what are the resources we have to put in to improve our performance in these areas such that the Value index comes within the acceptable range; or

(b) how can we possibly extend or redesign the value chain so that we include in our value chain the required competence from outside the organization.

The objective is to identify those activities that can be eliminated or moved and focus on those activities that can be used for competitive advantage and have a Value index greater than 1.

Resource based Theory

The resource-based view stresses the choices managers can make to learn, to develop new competences, and otherwise to change the strengths the firm possesses.

Competitive advantage is achieved by continuously developing existing and creating new resources and capabilities in response to rapidly changing market conditions.

Capability represents the identity of your organization as perceived by both your employees and your customers.

Capability is a measure of competence. It is your ability to perform better than competitors using a distinctive and difficult to replicate set of business attributes.

Prahalad and Hamel developed the concept of ‘Core Competencies’.

> *'In the 1990s managers will be judged on their ability to identify, cultivate, and exploit the core competencies that make growth possible - indeed, they'll have to rethink the concept of the corporation it self.'*

Their central idea is that a corporation should be built around a core of shared competences, expertise which companies develop over time .

Core competencies are competencies in which the organization can outperform competition and hence give it an advantage in the marketplace.

Core competence can be seen as any combination of specific, inherent, integrated and applied knowledge, skills and attitudes - areas of strength that provide maximum value to the competitive edge of the organization.

By exploiting these strengths the growth of the organization is made possible.

	Easy to Imitate	Difficult to imitate
RESOURCES	Necessary Resources	Unique resources
COMPETENCIES	Threshold Competencies	Core Competencies
	Same as Competitors	Better than Competitors

Core Competencies are not fixed. Competencies are developed internally by the firm in its day-by-day activity and by the use of acquired resources. Therefore, competencies are accumulated following firm-specific knowledge patterns.

Once developed, they affect the resources from which they have been generated, transforming the same resources into something different from what the firm bought originally.

The result is that core competencies change in response to changes in the company's environment. As a business evolves and adapts to new circumstances and opportunities, so do its Core Competencies adapt and change.

Core competencies can be identified by examining what it achieves. Core competencies are those that:

- *Provide potential access to a wide variety of markets:* those that enable the creation of new products and services; extend the distribution and service network; enhance the brand recognition; etc.
- *Make a significant contribution to the perceived customer benefits of the end product:* what is it that causes customers to choose one product over another? "why is the customer willing to pay more or less for one product or service than another?" "What is a customer actually paying for?
- *Difficult for competitors to imitate:* A core competence should be "competitively unique“ It should be something that other competitors wish they had within their own business.

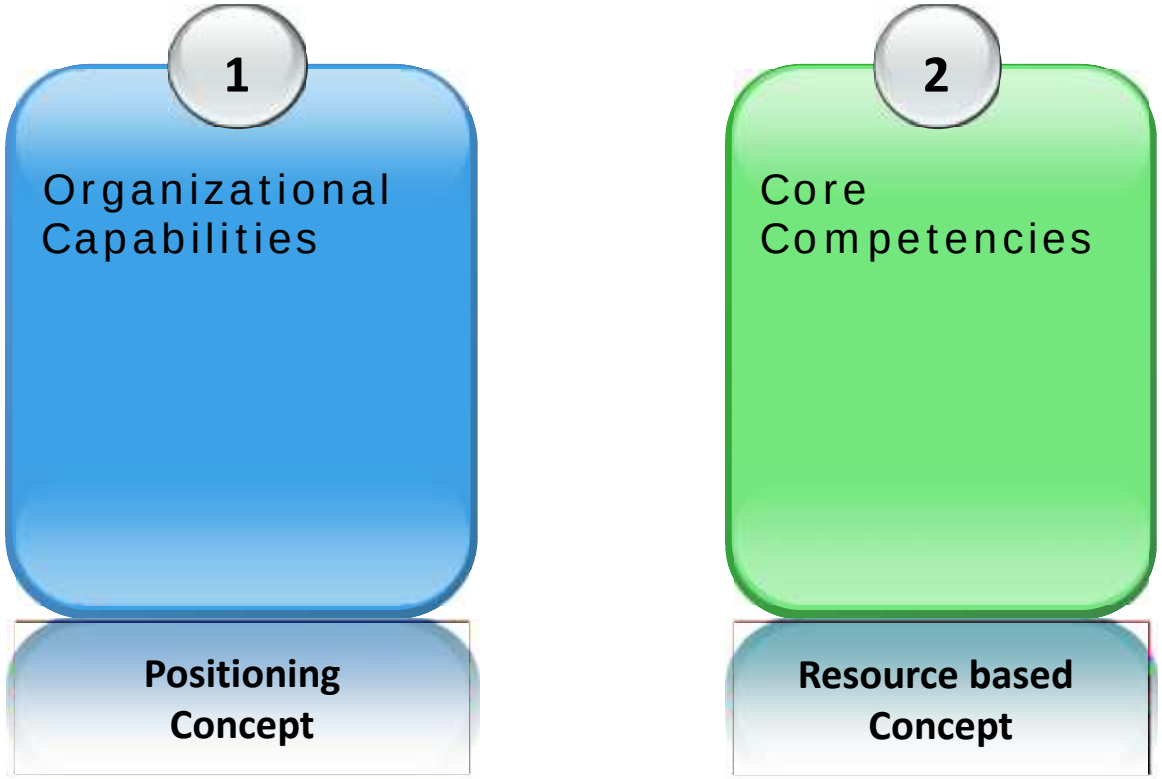
While the core competencies vary by industry and by company, following is a selected list of skills, processes or systems that might be considered as core competencies:

- Product Development - Marketing
- Supply Chain - Speed To Market
- Sales Force - Customer Service
- Technology - Strategic Alliances
- Manufacturing Practices - Engineering
- Service Levels - Design
- Efficient Systems - Product Innovation

Core Competency Analysis creates a realistic view of the skill sets, processes and systems the company is uniquely good at performing.

AREA	COMPETENCE REQUIREMENTS
Products:	Standing of products from the user's point of view, in each market segment ; Breadth and depth of the product line
Dealer /Distribution	Channel coverage and quality; Strength of channel relationships; Ability to service the channels
Marketing & Selling	Skills in each aspect of the marketing mix; Skills in market research and new product development; Training and skills of the Sales force
Operations	Manufacturing cost position – economies of scale, learning curve, age of equipment etc.; Technological sophistication of facilities and equipment Flexibility of facilities and equipment; Proprietary know-how and unique cost advantage; Skills in capacity addition, quality control, tooling etc.; Location; Labor force climate, unionization situation; Access to and cost of raw materials; Degree of vertical integration
Research & Engineering	Patent and copyrights; In-house capability in the R & D process (product research, process research, basic research, development, imitation etc.); R&D staff skills in terms of creativity, simplicity, quality, reliability etc.; Access to outside sources of research and engineering
Overall Costs	Overall relative costs; Shared costs or activities with other business units; Scale and other factors that are key to our cost position

Capability and Core Competence



Organizational Capabilities: Positioning Aspect

Organizational Capability Analysis provides a framework in which the capabilities of the organization can be integrated and used as critical success factors in the competitive strategy.

- It provides an insight into the skills, processes, knowledge and systems of the organization.
- It is a way to assess the value of the capabilities to the organization.

A good way to think of organizational capability analysis is to list the values of both product and services from the point of manufacturer or distribution to consumption.

The framework will be able to provide the answers.

To identify capabilities, the organization must answer these questions:

- What are the capabilities in each of the functional areas? What are we best at? What are we worst at?
- How do we measure up to the tests of consistency in strategy?
- Are there any changes in these capabilities? Will they increase or diminish with time?
- In what activities or skills do we add value better than competitors? Are we better at research? Distribution? Marketing or Selling? Or perhaps manufacturing?
- In what functional disciplines does we add value for the customer?

First determine the boundaries of the competitive arena. Closely linked to that is to understand where the potential markets may arise.

The analysis involves four stages:

- Making a list of the organizational capabilities needed to provide the products/services to the users.
- Listing the organizational capabilities in which we must excel to provide the quality and service demanded by the users of our products/services.
- Listing the organizational capabilities that enable the organization to provide the product characteristics or service attributes that cause the customer to decide to purchase your product rather than a competitor's.
- Listing any other capabilities the organization possesses that create customer value throughout our product line or gives a significant cost advantage over competitors.

After the identification has been completed, examine the basis of the assumptions used in identifying the capabilities.

This is central to this stage. Identifying assumptions can be difficult.

An approach that could make this simpler is to ask for each skill set, "What must be true for us to be successful?"

Evaluate these assumptions against the current realities you face to determine if they are valid and what is their impact on your operations.

Identifying and classifying the capabilities of the organization tells you where you have sustainable competitive advantage due to:

- the necessary skills,
- Processes, or
- knowledge

This exercise will help identify areas where you can improve your chances of success and reduce risks in executing your strategy.

Used with value chain analysis, it is a powerful tool to assess the value addition of the capabilities to the organization.

Organizational Competencies Analysis provides a framework in which the capabilities of the organization can be integrated and used as critical success factors in the competitive strategy.

This exercise provides an insight into:

- the skills,
- processes,
- Knowledge, and
- systems of the organization.

These capabilities are also the core competencies of the organization.

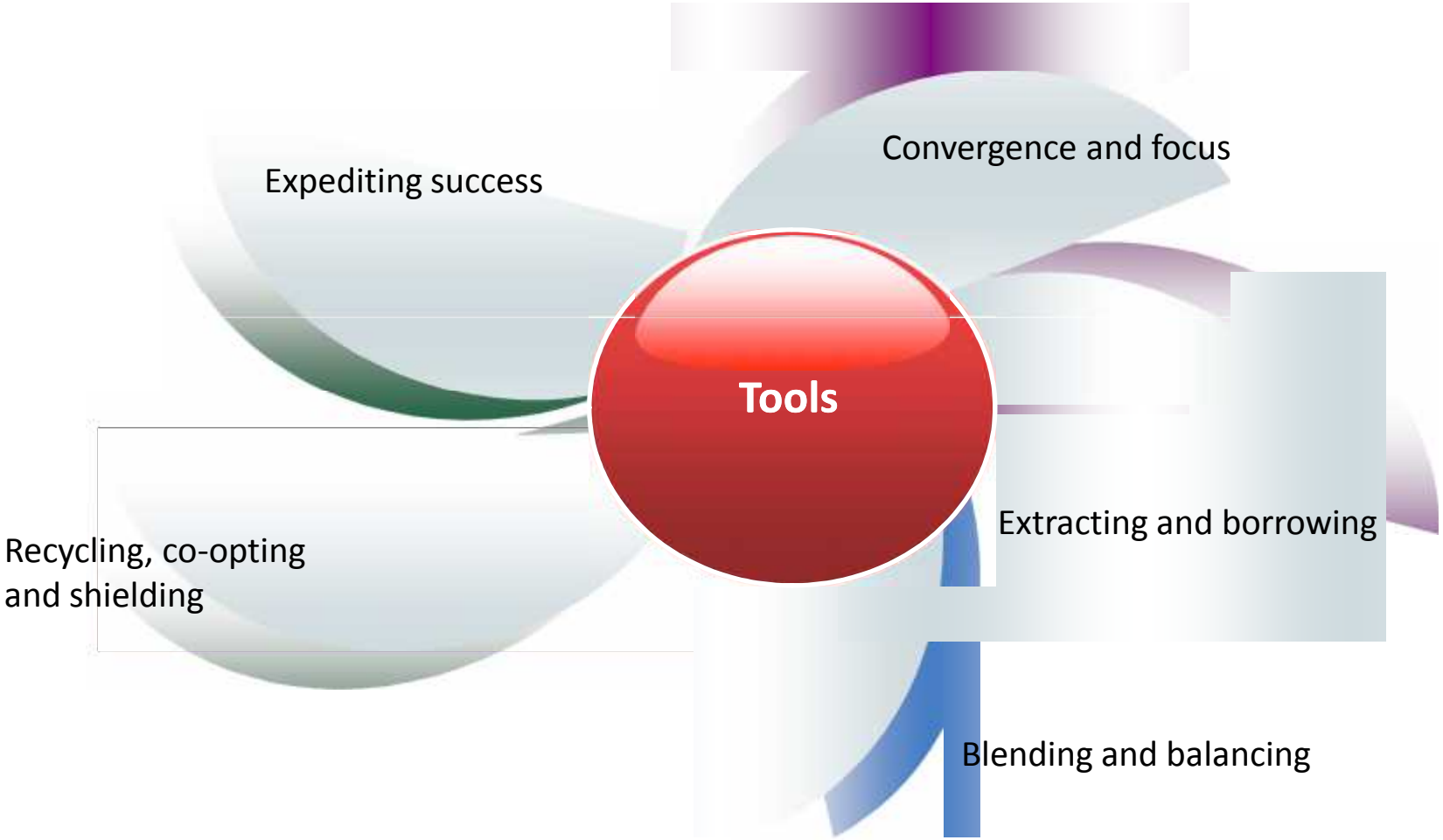
Core Competencies: Resource based Aspect

The core competencies model is an inside-out corporate strategy model that starts the strategy process by thinking about the core strengths of an organization.

The approach to the 'stretch' concept can be summarized as follows:

- The building blocks of corporate strategy are not products and markets but business processes. Products and markets are a result of business processes.
- Competitive success depends on transforming a company's key processes into strategic capabilities that consistently provide superior value to the customer.
- Companies create these capabilities by making strategic investments in a support infrastructure that links together and transcends traditional Strategic Business Units and functions. The portfolio perspective is not a viable approach to corporate strategy and the primacy of the Strategic Business Unit is an anachronism.
- Because capabilities necessarily cross functions, there needs to be a champion of a capability-based strategy at the top.

Traditional cost-benefit analysis should not be the basis for leveraging capabilities. This requires strategic investments across Strategic Business Units and functions.


Tools
Convergence and focus
Expediting success
Extracting and borrowing
Recycling, co-opting
and shielding
Blending and balancing