

CORE COMPETENCY

- A Core Competency is something that a Corporation can do exceedingly well. It is a key strength. It may also be called Core Capability because it includes a number of constituent skills.
- When these competencies or capabilities are superior to those of the competitors they become distinctive competencies.

- To be considered a distinctive competency ,the competency must meet three tests:
- **Customer Value** –It must make a disproportionate contribution to customer perceived value.
- **Competitor Unique** – It must be unique and superior to competitor capabilities.
- **Extendability** - It must be something that can be used to develop new products/services or enter new market.

- A Corporation can gain access to a distinctive competency in four ways:
- It may be an asset ,such as a key patent ,coming from the Company,e.g.Xerox
- It may be acquired,e.g.,Whirlpool bought a worldwide distribution system when it purchased Phillips appliance division
- It may be shared, TATA and I.D.E.A. of Italy
- It may be carefully built over time,Honda

DETERMINING THE SUSTAINABILITY OF AN ADVANTAGE:-

- Just because a Firm is able to use its resources and capabilities to develop competitive advantages does not mean it will be able to sustain it. Two characteristics determine the sustainability of a firm's distinctive competencies.
- Durability and
- Imitability.

- **Durability**: It is the rate at which a firm's underlying resources and capabilities (core competencies) depreciate or become obsolete or irrelevant .For example , Intel's skills in using basic technology developed by others to manufacture and market quality microprocessors was a crucial capability . Management realized that the firm had taken current technology as far as possible with the pentium chip. Without basis R & D of its own, it would slowly lose its competitive advantage to others.

- **Imitability:** It is the rate at which a firm's underlying resources and capabilities (core competencies) can be duplicated by others.

- A Core competency can be duplicated to the extent it is
- 1.Transparent (Gillete)
- 2.Transferable(Champagne)
- 3.Replicable(P&G)

- An organization's resources and capabilities can be placed on a continuum to the extent they are durable and can't be imitated (that is, aren't transparent, transferable or replicable) by another firm. This continuum of sustainability is depicted in fig.

A Continuum of Resource Sustainability

- Level of Resource Sustainability

- High

Low

- (Hard to Imitate)

(Easy to Imitate)

- Slow-Cycle Resources
- Strongly Shielded
- Patents brand name
- Gilatte: Sensor Razor

- Standard-Cycle Resources
- Standardised mass production
- Economies of Scale complicated processes
- Chrysler: Minivan

- Fast – Cycle Resources
- Easily duplicated
- Idea driven
- Sony: walkman

Roots of Competitive Advantage

- In the short-run, a company's competitiveness derives from the price/performance attributes of current products.
- In the long run competitiveness derives from an ability to build at lower cost and more speedily than competitors the core competencies that spawn unanticipated products.
- Core competencies are the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies.
- e.g. Sony's capacity to miniaturize.
- Core competence does not diminish with use. Unlike physical assets, which do deteriorate over time, competencies are enhanced as they are applied and shared.

Identifying Core Competencies

- At least three tests can be applied to identify Core- competencies in a company.
- First, a core competence provides potential access to a wide variety of markets. Competence in display systems, for example, enable a company to participate in such diverse businesses as calculators, miniature TV sets, monitors for laptop etc. that is why Casio's entry into Handheld TV market was predictable.
- Second a Core competence should make a significant contribution to the perceived customer benefits of the end product. Honda's engine expertise fills this bill.
- Finally, a core competency should be difficult for competitors to imitate. E.g. Gillette.

From Core Competencies to Core Products

- Honda's engines are for example core products. Core products are the components or subassemblies that actually contribute to the value of the end products.
- To sustain leadership in their chosen core competence areas, companies seek to maximize their world manufacturing share in core products.

- When the organization is conceived of as a multiplicity of SBUs no single business may feel responsible for maintaining a viable position in core products nor be able to justify the investment required to build world leadership in some core competence. In the absence of more comprehensive view imposed by corporate management, SBU managers will tend to under invest. Recently companies such as Kodak and Phillips have recognized this as a potential problem and have begun searching for new organizational forms that will allow them to develop and manufacture case products for both internal external customers .

Developing Strategic Architecture

- A Strategic Architecture is a roadmap of the future that identify which core competencies to build and their constituent technologies. Senior management should spend a significant amount of its time developing a corporate wide strategic architecture that establishes objectives for competence building.

Redeploying Explicit Competencies

- If the company's core competencies are its critical resources and its top management ensures that competency carriers are not held in shortage by some particular business, then it follows that SBUs should bid for core competencies in the same way they bid for capital.