

The importance of core competencies to the organisation

[Technology](#), [Innovation](#)



INTRODUCTION

In this assignment, I will aim to evaluate this statement as it relates to the overall corporate strategy within a corporation. I will state whether managers are required to rethink their understanding of the corporation and whether this concept is still relevant today. I will illustrate my understanding of the concept by drawing on examples of different organisations. Finally, I will conclude by agreeing whether it is crucial for managers to re think their ideas of managing core competencies as it relates to the corporations they operate in both in the present and in the future.

The concept of understanding corporations is based on the definition of core competencies. Prior to the 1990's Prahalad and Hamel suggested that our understanding of corporations was defined as a collection of Strategic Business Units (SBUs). The SBU system was apparently flawed. This is because, each business unit operated independently from the corporation, with the risk of losing its corporate image. The system failed to appreciate the component parts of the corporation which delivered the corporate business strategy, in terms of resources, processes and people. There was an obvious need to radically change the concept of business management within this area. Subsequently, it led to the suggestion that corporations should function as a group of core competencies. This concept set out the framework for managers to establish and acknowledge their competencies. Core competencies can be defined as the skills and intentions which enable a corporation to leverage its resources. Resources may either be tangible or intangible. Tangible resources, as the name suggest are those visible

possession of the firm, they are categorised as land, and building equipment or machinery. Core competencies in this case, can be referred to as intangible resources which are non- visible assets of the corporation. Contrary to characteristics tangible resources they are quite difficult to acquire and recognise. This is because of the processes involved in identifying and developing them.

Managers should concentrate on integrating skills throughout all aspects of the corporation. By understanding those core competencies that lead to successful growth, managers are able to formulate ways to reach and stretch these resources towards new goals as the environment changes. It is required that managers acknowledge their own competencies and align them with that of the corporation. Competencies are not only based on individual skills but rather a collection of skills across the corporation.

(Fundamentals of Strategy Gerry Johnson, Kevan Scholes and Richard Whittington page 65)

Mastering Strategic Management – Tim Hannagan page 13

The competency approach enables the recognition of unique and distinctive resources. Every organisation is unique in terms of its resources and this is relevant with regards to the scope and extent of its core competencies. By evaluating a corporation's core competencies managers are able to recognise strengths and weaknesses, using this valuable information to identify the key areas that it may build on but more importantly areas which needs improvement. Managers can decide which skills require further

development or in this global environment, what areas can be exploited outside the firm. By examining these areas an organization can correctly manage its day to day activities and if necessary eliminate the areas that are not beneficial to the set organization.

(The Changing Nature of Organizations page 99)

The Importance of Core Competencies to the organisation

Once managers have a clear understanding of their core competencies and design ways of leveraging them within and outside the corporation. They are able to achieve successful growth. This results in gaining a competitive edge. Below, I will outline the interrelationship between core competencies and the definition of a corporation itself. They include: (1) Facilitates strategy development, (2) Encourages innovation and (3) Enforces recruitment and selection

1. Facilitates strategy development

Unless the strategy that a corporation adopts is centred on its strengths and not its weaknesses it will never archive its set goals. The exploration and further development of any corporation core competencies is of utmost importance in strategy development. The knowledge and understanding of these provide managers the information needed to identify opportunities in the business environment and the necessary resources to take advantage of these (Strategic Intent)

(Mastering Strategic Management- Tim Hannagan pg13)

(Long term corporate sustainability through competitive advantage)

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Porter claimed in 1996, that a company can outperform rivals only if it can establish a difference that it can preserve. Only when a manager is able to identify his/her corporation strengths and core competencies can the organization create opportunities and overcome the challenges it faces from competitors. The key advantage is that, the corporation is able to differentiate themselves from their competitors, gaining a competitive edge impossible to imitate.

2. Encourages innovation

The concept of core competencies encourages companies to diversify. It is essential that managers drive the core competencies of the corporation to reach its full potential, creating effective and profitable use.

Innovation is interlinked with a company's core competency. Competencies encourage the formation of knowledge, skills and abilities. This could be further extended to motivation. Competency models dictate and evaluate ideal patterns for employee performance. Through creativity employees are encouraged to generate ideas with regards to problem solving, in turn analysing these approaches and find suitable solutions. Innovation encourages employees to constantly look for ways to improve the organisation in terms of profit generation and competitive advantage. This is carried out by gathering useful sources of information through utilising available technologies. The innovative organisation should encourage staff to use their initiative and offer rewards for their creativity. (<http://www.business-strategy-innovation.com>)

An example might be Apple: Apple sets the standard for innovation, under the legendary leadership of Steve Jobs. The company cultivates innovation from its staff fostering new ideas and launching successful products such as iPod, iTunes, iPhone and iPad. Apple seizes opportunities in the marketplace to stimulate growth by leveraging its system of employees, customers, supplies, partners and global networks. (<http://creativityandinnovation.blogspot.com>)

3. Enforces recruitment and selection process

Competencies are effective because they dictate behaviours required to achieve business strategy. On this assumption, the assessment of competencies is one means of selecting employees. Ideally, competencies will enable organisations to form a model of the kinds of employees it wishes to attract through recruitment. (Human Resource Management by Bratton and Gold pg 247-248)

HRM (Boom and Sparrow, 1992, p. 13) claimed that competency frameworks lie at the heart of all approaches in order for the objectives of the corporation to be aligned. This is achieved through various human resource activities of recruitment and selection, appraisal, training and rewards. Core competencies enhance a common understanding of effective behaviour in the workplace and provide a basis for more consistency in performance management practices. (Whiddett and Hollyforde. 2003). (Human Resource Management by Bratton and Gold pg 247-248)

An example might be The Virgin Group: The Virgin brand is very much unique. The most distinctive competency is that of its owner Sir Richard

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Branson. His leadership style and entrepreneur skill has proved an asset to the firm, which other organisations are unable to replicate. One can describe the Virgin Group recruitment and selection process highly intensive. Their systematic approach allows the selection of employees who meets specific criteria. This competency, coupled with Branson leadership skills forms intellectual and human capital which is distinctive, therefore, impossible for other firms to copy.

Identifying Core Competencies

Identify core competencies highlights areas of expertise and instructs managers to focus on important areas within a corporation. With reference to the statement by Prahalad and Hamel,' managers will be judged on their ability to identify, cultivate and exploit their core competencies. It is acknowledged that this approach presents a degree of difficulty for managers. As a guideline manager can utilise the three conditions suggested by Prahalad and Hamel to determine core competencies. They are: (a) Potential to wide variety of markets (b) Contribute significantly to the perceived customer benefits of the end product and (c) difficult for competitors to imitate. These conditions assist managers to address the difficulties stated earlier. Once adopted will assist to identify the activities or resources which contribute to the competitive advantage of the corporation or those which are unlikely to compete with rivals.

In this section, I will go on to explain further these conditions which will be fulfilled with examples of corporations where this has been the case.

(a) Potential access to a wide variety of markets –The core competency must create opportunities for entrance into new industries to sustain competitive advantage and growth.

An example might be TESCO: The supermarket initially started behind its rivals Sainsbury's and ASDA in terms of market penetration, size and quality. TESCO's corporate strategy was to establish itself as a quality entrant. This strategy has proven effective since, the supermarket sector is now dominated by Tesco. Management adopted an evolutionary policy which created a base for expansion and a reputation for size and quality. As a result, this rejuvenated the business. The company leveraged expansion into different markets, enabling Tesco to maintain its position as one of the world's largest retailers. ([http://www. checksure. biz](http://www.checksure.biz))

The Grocers: The Rise and Rise of Supermarket Chains by Seth, Andrew.
Randall, Geoffrey.

Publication: London Kogan ([http://www. netlibrary. com.](http://www.netlibrary.com))

(Mastering Strategic Management, Tim Hannagan pg 25)

(b) Contribute significantly to the perceived customer benefits of the end products –The core competency must be perceived by customers to providing value. Customers are then willing to pay the maximum price. This provides key insights into customer's needs and preferences

An example might be Dell computers: Dell has completely re-invented the business model, the company has created a niche market through producing

manufacturer-to order' personal computers for consumers. Through internet technology, customers are able to customise components of the personal computer to suit their needs and process orders online via the Dell website. The company has promised to deliver complete computer system configuration and to assemble computer system according to customer specifications. In addition, the company has deployed online customer service representatives and online chat forums dedicated to customer concerns.

(Supply Chain Strategy: The Logistics of Supply Management by Frazelle Edward. pg 277)

(<http://www.netlibrary.com>.)

Key to Dell's strategy is its warehousing and logistics technology. The company avoids the need to anticipate stock overflow and stores finished goods in large warehouses. This reduces the need for in-house sorting. This work is done in the sorting centre. This new logistics model has enabled Dell to operate an efficient storage and delivery system with the company achieving significantly higher financial returns than their competitors. The key to success is the substitution of information for inventory and work content.

(Supply Chain Strategy: The Logistics of Supply Management by Frazelle Edward. pg 278)

(<http://www.netlibrary.com>)

(c) Difficult for competitors to imitate –The core competency should create uniqueness which is distinctive to the organization. The key here is ensuring that the competency is better than competitors which aren't easily copied.

An example might be Coca Cola: Coca Cola is the global leader of bottled beverages. The key competency lies within its brand name. It is the best known product in the world and its popularity has truly made it universal. There is a distinctive taste of the company's products which is impossible for competitors to imitate. The company provides a powerful portfolio of beverages to its customers and consumers. This includes carbonated drinks, bottled water and packaged juices. With an increased focus on marketing the company continuously aims to extend existing brands and explore new beverage segments in different markets. This enables the company to capture and maximise its growth. The company focus is on innovation through advanced marketing intelligence systems. Coca Cola is able to execute and refine its channel-marketing and multi-segmentation strategies. The company is very keen to contribute to the local and global community. Coca-Cola provides sponsorships particularly to sporting events, such as the Olympics, FIFA World Cup and UEFA European Championships. This allows, continued recognition of the brand, key to the company's success. www.coca-colafemsa.com

Limitations of the Approach

The core competency approach has proven beneficial to the managers in terms resource based management. Below I will highlight a few disadvantages to this approach as they relate to the (a) suitability, (b)

adaptability and (c) sustainability within corporations. The aim here is to provide managers with the necessary tools to undertake practical decisions which affect the performance of the corporation.

(a) Suitability– This point highlights that managers should incorporate system to support resources within the corporation. Inadequacy will impact negatively on the corporation. The corporation must be capable in creating activities catered to the building and maintaining of resources. (Building The Capability to perform by Kim Warren pg229)

In addition, the three tests recommended by Prahalad and Hamel to identify core competencies in practice may prove demanding for managers. As a result, managers tend to produce an exhausted list of traits they would like the corporation efficient in. There is an obvious confusion between personal competencies and corporate ones. Corporations usually evaluate their competencies firstly, on the personal level rather than referring to generic competencies that apply to the firm as a whole.

(b) Adaptability– Managers fail to recognise that core competencies can be applied to every aspect of the corporation. There is a tendency to believe that it extends only to customers. Any competency which fails to satisfy a customer's need is deemed a liability. The resource based view states clearly that this approach is inaccurate. It is obvious, that some competencies may indirectly contribute to adding value for customers. An example might be that of HR department, the main function includes recruiting, appraising and

developing staff across many functions invisible to customers. (Competitive strategy Dynamics by Kim Warren pg230)

The three tests recommended by Prahalad and Hamel to identify core competencies in practice, may prove demanding to organisations. As a result, what tends to emerge is a wish list of what the organisation would like to be good at. Part of the problem is that there is confusion between personal competencies and corporate ones. Companies are usually tempted to start on the personal level when pursuing competencies. The solution is for companies to synthesize the skills of their people into generic competencies that apply to the firm as a whole. (The Changing Nature of Organizations pg99)

(c) Sustainability-This addresses the issue that valuable competencies may reside only among certain people. Shockingly this may not include senior managers. The danger here is, if the people depart, so too, the competencies. A typical example already mentioned is the case of Sir Richard Branson and Virgin Atlantic. Similarly this can be applied to Apple and Steve Jobs. The disadvantage of having this key competence is at the same time creating a barrier for imitation by your competitors but also difficulty in finding a suitable substitution. (The Changing Nature of Organizations pg 100)

CONCLUSION

Throughout the century our understanding of corporations has evolved dramatically. This understanding has been further influenced through the

development of management theories. A primary example is that of Prahalad and Hamel. They have fuelled a radical re- thinking of the term corporation and the necessary guidelines for managers to execute their core competencies successfully. I believe that, this is the concept by which we understand corporations today. Hopefully, I have provided adequate evidence to support this concept and explained its importance for managing resources effectively within modern corporations. In addition, I have attempted to illustrate the inter-relationship between cultivating and exploiting key resources in order to establish corporation identity.

I have shown this with examples of TESCO, Virgin, Dell and Apple. The fundamentals of this concept will be explored further as corporations seek to cope with external and internal pressures of the business environment. As such, managers need to be skilful and proactive in designing new and innovative ways of developing their core competencies. Again, I emphasize that managers should carefully assess the corporation and its desired goal. In doing so they are able determine the appropriate approach to build their core competencies.

In this volatile business environment the future remains a mystery. By no means will this change our understanding of the corporation. The key to cultivating core competencies is ultimately gaining competitive advantage. It will be interesting to see how managers will embrace opportunities to sustain these valuable resources.

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