

Four criteria for an organisation's core competence



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Describe the four criteria for an organisation's core competence. Explain how core competencies can be identified and leveraged to develop strategies, Give example(s) to support your argument.

Introduction

This essay starts by briefly describing how the term core competencies was established before looking at why it is necessary to identify core competencies within an organisation. The four criteria used to identify core competencies is discussed with an analysis of each followed by an overview of strategy. This provides the pretext to discuss the role of correctly identifying core competencies and why leveraging them in strategy development is important.

Core competencies

Formulating strategies is a cyclical process in which an internal analysis of an organisation plays a crucial part (Introduction: What is strategy? 2006: 1). This analytical process involves taking a theoretical approach known as a resource-based view (Unit 3: 5) in which an organisation objectively looks at <https://assignbuster.com/four-criteria-for-an-organisations-core-competence/>

all its resources and capabilities to see how best they can give an organisation competitive advantage. Grant has established that an organisation's resources can be tangible, intangible or human and that these can be matched to its capabilities to eventually provide competitive advantage (Grant, 2008: 131). This process of exploiting the unique combination of resources and capabilities has given rise to the term of core competencies which have been defined by Prahalad and Hamel (1990: 78-90) as the ability of an organisation to coordinate all its technologies and production skills in order to deliver its strategy.

Identifying core competencies

Core competencies are the building blocks on which organisations are able to strategise so it is vital to identify them correctly using four specific criteria (Segal-Horn, 2009: 169):

- 1) Does it provide significant value?
- 2) Does it allow to increase or dominate market share?
- 3) Is it difficult for competitors to imitate?
- 4) Does it provide competitive advantage?

It is important to understand that these are not mutually exclusive categories therefore it is essential to meet all criteria in order to establish a core competency. Usually it is not possible for an organisation to have more than a handful of core competencies (Segal-Horn, 2008: 170).

Value in this scenario is in terms of 'perceived' benefit to the end user of the product or service (Segal-Horn, 2009: 169). For instance, Vodafone became a leader in the world of mobile communications in the late nineties by providing value-adding services such as short message services and voicemail (Unit 1: 10) to their existing portfolio. The concept of value is equally applicable in not-for-profit organisations such as Crisis, a charity for single homeless individuals. One of its core competencies is achieved through its long establishment of over 40 years and its ability to provide services at a national level and this level of dedication is seen as a valuable asset. Organisations which have value-creating resources are at an advantage to those who do not, for example Vodafone who made heavy investments in their research and development to stay ahead of their competitors (Unit 1: 9). It is important to understand that value is not always represented by revenue, as in the example of the charity Crisis; the value of such a service to a needy individual is priceless hence this is a context-specific measure.

Markets are becoming increasingly complex and with the advent of globalisation and the internet they are not restricted by geographical boundaries so identifying competencies which can help to increase market share are exceptionally valuable. An example of this would be the ability of an organisation to provide a service in several different languages simultaneously. Organisations whose infrastructure is such that it allows simultaneous function across continents are clearly at an advantage to those who have a lesser ability to do so. Markets are dynamic so the ability to

adapt to changes in the environment due to specific capabilities can be regarded as a core competency.

The third test is to see whether it can easily be replicated by another organisation; the more difficult it is to imitate, again the more value it holds as a core competence. A competitor might be able to obtain identical technology on how to build a TV but the core competence might lie in the ability to have a more efficient production line. Apple Inc. for example use an operating system which is unique to their products and sometimes reputation, an intangible resource, can be seen to be difficult to imitate especially in organisations which have been established for a significant length of time such as certain retailers.

If a particular asset, (or combination of assets) has the potential to provide competitive advantage that is extremely useful in identifying a core competence. Competitive advantage is the ultimate goal of an organisation's strategy (Grant, 2008: 131). Organisations with unique assets such as a patented technology immediately translate into a competitive advantage, however in many industries, competitive advantage is achieved through extremely precise combinations of resources and capabilities and the method by which an organisation exploits these assets is a core competence.

Strategy development

Strategy allows an organisation to deliver its vision. To develop a deliberate strategy which could potentially increase the sustainability of an organisation clearly requires the identification of core competencies but often a single strategy is not the answer. Organisations require a headline strategy to fit a

brief which resonates the vision but several strategies are required over many departments such as research and development, production and marketing to deliver the main strategy. The process of strategy development is complex and methodology depends on several factors including the availability of resources and the external environment. The second step in strategy development following identification of core competencies is the process of leveraging resources so they can be exploited for maximum benefit.

Strategy development is a crucial step in attaining competitive advantage but a strategy is only as successful as its implementation. The process of leveraging core competencies therefore is vital and requires careful consideration since it forms the basis of implementation.

Leveraging core competencies

This is the process of exploiting core competencies in the most appropriate manner for effective strategy development because not all core competencies need to be used all the time and some may be more beneficial than others in any given scenario. Prahalad and Hamel (in Segal-Horn, 2009: 33-40) have highlighted five broad ways by which core competencies can be leveraged:

1. Concentrating core competencies effectively,
2. Efficiently accumulating core competencies,
3. Creating value through complementing core competencies with each other,

4. Conserving core competencies through contingency plans and

5. Recovering core competencies in a timely manner.

Concentrating core competencies is a method which has two facets; one being convergence which reflects the overall vision most closely so all the resources 'converge over time' (Segal-Horn, 2009: 33) and the second being focus. By focussing the most appropriate core competencies on key aspects only it allows an organisation to meet significant short-term goals most effectively. This is most useful in situations where some departments require more development than others for example the production team may be meeting the targets set for them but the marketing department might not be on par so although all departments are working towards one goal, one or more of the core competencies are being focussed on the under-performing department.

The process of accumulating core competencies refers to both organisation-specific core competencies as well as those of other organisations. Having a bank of information which has not been developed by an organisation themselves but is easily accessible can be extremely beneficial since it reduces time spent carrying out menial tasks as well as allowing the organisation to continue their learning and development by borrowing resources through mergers, acquisitions, joint ventures and so on.

Knowledge through experience and the continual process of an organisation to learn and unlearn in order to 'apply lessons' is known as extraction.

Some core competencies are stand alone resources, one example being the open culture exhibited at Apple Inc. where creative individuals are given

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appropriate space to develop their ideas. More often than not, organisations find that the cumulative effect of core competencies is far greater than that of exploiting them individually and this method is known as blending. An extension of this idea is balancing core competencies which ensures that different operational areas within an organisation work together in harmony and do not overshadow or undermine each other. When applying these methods to leverage core competencies it should be noted that adjustments to re-balance the status quo may need to be made periodically.

Conserving core competencies is a methodology which can be divided up into three areas. Shielding which involves protecting an organisation's resources to reduce risk to a minimum while simultaneously increasing risk for competitors, co-option which is a collaboration that often results in increased market share for stronger party in the collaboration and the final methodology is recycling whereby core competencies which have a proven track record in significantly contributing to maximising profits are used time and time again.

The final method which is used to leverage core competencies is recovery. The faster the speed of recovery, the time taken to turn around a product from development to market saturation and back to new product development, the greater the chances of recovering investment quicker. This leverage method is particularly noticeable in the technology industry where soon as a product garners popularity, its successor is already ready to be launched.

Conclusion

The brief analysis above has discussed that in an attempt to develop successful strategies, the first step is an internal analysis to identify available resources and capabilities. The next stage is to identify the core competencies of an organisation using criteria to test whether they add value, increase market share, are difficult to imitate and together do they possess the potential to serve as competitive advantage.

In doing so it is evident that an organisation may be capable of drawing up a list of several resources and capabilities but only a handful of core competencies will result in any one organisation. Whilst several organisations may have similar resources in terms of tangible resources, it is the existence of intangible and human resources and the capabilities to combine them which create opportunities to develop core competencies. Once correctly identified, it is vital that core competencies are leveraged most effectively to maximise their potential in attempting to deliver an organisation's strategy.

Core competencies can be leveraged in one of several ways depending on the nature of the brief. In some rare instances all of the core competencies may be used all of the time but more often than not the combination used is context-specific. The specific nature of the task will determine whether core competencies need to be reserved, extracted, borrowed, converged, recycled, shielded, blended, balanced, focussed or co-opted.

Whilst the work on core competencies carried out by Prahalad and Hamel has been cited extensively and used by organisations globally, it is worth

noting that the research is almost 25 years old and the longevity of theory may be questionable. With markets becoming more complex and consumer behaviour changing rapidly perhaps not all of the existing methods of leverage may be completely relevant.

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