

## About Core Competence:

Core competence can be simplified in definition to mean: Primary area of expertise; Narrowly defined fields or tasks at which a company or business excels; Primary areas of specialty

Clearly stated, Core competencies are those capabilities that are critical to a business achieving competitive advantage. The starting point for analysing core competencies is recognising that competition between businesses is as much a race for competence mastery as it is for market position and market power. Senior management cannot focus on all activities of a business and the competencies required to undertake them. So the goal is for management to focus attention on competencies that really affect competitive advantage.

### The Work of Hamel and Prahalad

The main ideas about Core Competencies were developed by C K Prahalad and G Hamel through a series of articles in the Harvard Business Review followed by a best-selling book - Competing for the Future. Their central idea is that over time companies may develop key areas of expertise which are distinctive to that company and critical to the company's long term growth.

*'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.'* C K Prahalad and G Hamel 1990

These areas of expertise may be in any area but are most likely to develop in the critical, central areas of the company where the most **value is added** to its products.

For example, for a manufacturer of electronic equipment, key areas of expertise could be in the design of the electronic components and circuits. For a ceramics manufacturer, they could be the routines and processes at the heart of the production process. For a software company the key skills may be in the overall simplicity and utility of the program for users or alternatively in the high quality of software code writing they have achieved.

Core Competencies are not seen as being fixed. Core Competencies should change in response to changes in the company's environment. They are flexible and evolve over time. As a business evolves and adapts to new circumstances and opportunities, so its Core Competencies will have to adapt and change.

A core competence strategy involves three main activities:

- Identifying your core competencies.
- Looking for ways to leverage your core competencies (i.e., extracting new value from them through new products and new markets).
- Defining a program for continually enhancing and strengthening your core competencies.

Business units should make use of, as well as help to further develop their Core Competence (s). The corporate center should not be just another layer of accounting, but must add value by enunciating the strategic architecture that guides the competence acquisition process.

Three tests to identifying a Core Competence are:

- I. Provides potential access to a wide variety of markets,
- II. Should make a significant contribution to the perceived customer benefits of the end product(s), and
- III. A Core Competence should be difficult for competitors to imitate.

Core competencies are built through a process of continuous improvement and enhancement. They should constitute the focus for **corporate strategy**. At this level, the goal is to build world leadership in the design and development of a particular class of product functionality. Top management can not be just another layer of accounting consolidation, but must add value by enunciating the **strategic architecture** that guides the competence acquisition process.

Once top management (with the help of divisional and Strategic Business Unit managers) has identified an overarching Core Competence, it must ask businesses to identify the projects and the people closely connected with them. Corporate auditors should direct an audit of the location, number, and quality of the people who embody the Core Competence. Core Competence carriers should be brought together frequently to trade notes and ideas.

A competence which is central to the business's operations but which is not exceptional in some way **should not be considered as a core competence**, as it will **not differentiate the business** from any other similar businesses. For example, a process which uses common computer components and is staffed by people with only basic training cannot be regarded as a core competence. Such a process is highly unlikely to generate a differentiated advantage over rival businesses. However it is possible to develop such a process into a core competence with suitable investment in equipment and training.

It follows from the concept of Core Competencies that resources that are standardised or easily available will not enable a business to achieve a competitive advantage over rivals.