International Journal of Scientific and Research Publications, Volume 7, Issue 2, February 2017 253
ISSN 2250-3153

Theorizing the Concept of Core Competencies: An Integrative Model beyond Identification

Hirindu Kawshala

Lecturer (Probationary), Department of Commerce and Financial Management, Faculty of Commerce and Management Studies, University of Kelaniya, Sri Lanka

Abstract- The multi-dimensional view of Core Competence is addressed differently by different scholars (Barney, 1991; Javidan, 1998; Collins, Smith and Clark, 2005). However, theoretical basis in this regard is still fragmented. Thus, we conceptualize the notion of core competencies. Core competence, resources and competence have been identified as the main constructs of the study. Subsequently, two propositions were developed and model was constructed based on the literature reviewed. We postulate, Capabilities, competencies and resources are the dimensions of core competencies and identical core competencies lead to gain a competitive advantage for a firm. Furthermore, competitive advantages usually proceeds to grow a firm.

I. Introduction

Unlike in the past, the current business competition is well informed and the battle is fierce. Hence, Henry Ford's concept of "You can have any colour as long as it's black" is no longer a viable option to addressing the customer needs. Companies now require something special in order to fight the fierce battle among the competitors. This is termed as **"Core Competencies"**. This is notion is contemporary and topical in the field of strategic management (Selznick, 1957; McLagan, 1983; Thornston, 1992; Spencer, 1993; Prahalad, 1990; Lahti, 1999; Barney & Wright, 1998; Mueller, 1996; Porter, 1985; Zhang, et al., 2002; Wright, et al., 2001; Wernerfelt, 1984; Ulrich, 1998; Schuler, 1992).

The definitions of these scholars will be referenced throughout the core of the study and will explain the concept of core competencies in a broader manner. Therefore, it is vital that any company differentiates itself from the rest of the competition through a unique set of skills, commonly referred to as "core competencies". With today's competition, knowledge is power and having knowledge others do not possess would most certainly give power to one over the rest. Therefore, core competence is considered as one of the main assets an organization could possess. However, although it is considered to be one of the most important things, scholars in the field have not reached to a consensus in relation to the definition of core competence. Thus, this integrative model development paper intends to make a contribution to the existing body of knowledge by means of defining what core competency is & introducing a new model by amalgamating previous models through reference to past document and using a practical approach.

II. Literature Review

Most importantly, this section will elaborate the core constructs addressed in this paper. Simply said, within the domain of core competencies; competencies, resources and capabilities are viewed as topical and indeed the subject domain exists in a fragmented literature base. Given this, this section reviews the seminal works pertaining to the construct of core competencies.

Core competencies

A **Core Competency** is a concept in management theory originally advocated by two business authors, (Prahalad & Hamel, 1990) . In their view a core competency is a specific factor that a business sees as central to the way the company or its employees work. It fulfills three key criteria:

1. It is not easy for competitors to imitate.
2. It can be reused widely for many products and markets.
3. It must contribute to the end consumer's experienced benefits and the value of the product or service to its customers.

A core competency can take various forms, including technical/subject matter know-how, a reliable process and/or close relationships with customers and suppliers. It may also include product development or culture, such as employee dedication, best Human Resource Management (HRM), good market coverage, or kaizen or continuous improvement over time.

Core competencies are particular strengths relative to other organizations in the industry, which provide the fundamental basis for the provision of added value. Core competencies reflect the collective learning of an organization and involve coordinating diverse production skills and integrating multiple streams of technologies. It includes communication, involvement, and a deep commitment to working across organizational boundaries, such as improving cross-functional teams within an organization to address boundaries and to overcome them. Few companies are likely to build world leadership in more than five or six fundamental competencies.

A core competency results from a specific set of skills or production techniques that deliver additional value to the customer. These enable an organization to access a wide variety of markets.

In an article from 1990 titled "The Core Competence of the Corporation", (Prahalad & Hamel, 1990) illustrate that core competencies lead to the development of core products which further can be used to build many products for end users. Core competencies are developed through the process of continuous improvements over the period of time rather than a single large change. To succeed in an emerging global market, it is more important and required to build core competencies rather than vertical integration. NEC utilized its portfolio of core competencies to dominate the semiconductor, telecommunications and consumer electronics market. It is important to identify core competencies because it is difficult to retain those competencies in a price war and cost-cutting environment. The author used the example of how to integrate core competences using strategic architecture in view of changing market requirements and evolving technologies. Management must realize that stakeholders to core competences are an asset which can be utilized to integrate and build the competencies. Competence building is an outcome of strategic architecture which must be enforced by top management in order to exploit its full capacity

Please note: according to Prahalad & Hamel (1990) definition, core competencies are the "collective learning across the corporation". They can therefore not be applied to the SBU and represent resource combination steered from the corporate level. Because the term "core competence" is often confused with "something a company is particularly good at", some caution should be taken not to dilute the original meaning.

In *competing for the Future*, the authors Prahalad (1990) show how executives can develop the industry foresight necessary to adapt to industry changes and discover ways of controlling resources that will enable the company to attain goals despite any constraints. Executives should develop a point of view on which core competencies can be built for the future to revitalize the process of new business creation. Developing an independent point of view of tomorrow's opportunities and building capabilities that exploit them is the key to future industry leadership.

For an organization to be competitive, it needs not only tangible resources but intangible resources like core competences that are difficult and challenging to achieve. It is critical to manage and enhance the competences in response to industry changes in the future. For example, Microsoft has expertise in many IT based innovations where, for a variety of reasons, it is difficult for competitors to replicate or compete with Microsoft's core competences.

In a race to achieve cost cutting, quality and productivity, most executives do not spend their time developing a corporate view of the future because this exercise demands high intellectual energy and commitment. The difficult questions may challenge their own ability to view the future opportunities but an attempt to find their answers will lead towards organizational benefits.

Resources

An economic or productive factor required to accomplish an activity or as means to undertake an enterprise and achieve desired outcome. Three most basic resources are land, labor, and capital & other resources include energy, entrepreneurship, information, expertise, management and time. Resource is defined as an input to the value process, found in the basic activities and processes within a company in which core competencies often form a major part.

Resources are inputs to a company's value process and they are the 'basic units of analysis' (Grant, 1991). According to (Barney, 1991), Resources are categorized in numerous ways: E.g.: Organizational (culture and reputation) Physical (asset, equipment, location, and plant)

Human (manpower, management team, training, and experience). According to (Peteraf, 1993), resources are categorized as tangible and intangible other than above categorization. Resources are also identified as sources for sustainable competitive advantage if they are valuable, rare, inimitable, and organization-able (Barney, 1991). Resources are among the most basic elements in a company, and they are natural objects to study since they are input to a company's value process (Grant, 1991).

Competence

Competence is an assembly of related abilities, commitments, knowledge, and skills that enable a person or an organization to act effectively in a job or a situation. Competence indicates sufficiency of knowledge and skills that enable someone to act in a wide variety of situations. Because each level of responsibility has its own requirements, competence can occur in any period of a person's life or at any stage of his or her career.

In other words the capacity of a person to understand a situation and to act reasonably. Disputes regarding the competence of an individual are settled by a judge and not by a professional, although the judge may seek expert opinion before delivering at a judgment.

According to (Henderson & Cockburn, 1994), Competencies are generally separated into 2 categories. They are namely, Functional competencies and Integrative competencies. The former are used in daily activities, and the latter to integrate and develop new competence components.

From a technology perspective, (Danneels, 2002) suggest that product innovation, facilitated and improved by competencies, is a driving force of firm renewal. Further, he suggests three categories of competencies:

- First order - comprise customer and technological competencies
- Integrative - relate to the ability to combine first-order competencies
- Second order - relate to the ability to build first-order competencies.

According to (Javidan, 1998), Competencies are crucial in general too, since they play a major part in organizational developments .He has suggested a "Competence Hierarchy", in which the competence concept is of greater value to a company than (in decreasing value order) the capability concept and the resource concept.

Capabilities

In strategic management, capabilities are perceived as a critical resource of firm performance and at present every firm strive to be perceived as being capable of doing something than other firms. However, the exact meaning of defining the notion of capabilities has roots to different conceptual definitions. Collis (1994) stated that the conception of has left been vague in relation to firm capabilities. Schreyögg & Kliesch-Eberl, (2007) asserted that defining the notion of capability is very important due to the above mentioned differences of conceptualizing capabilities. Therefore, they view capability as not a mere firm resource that enhances the performance of other resources such as financial, manpower or technology, but rather firm capability is superior means of allocating resources. Furthermore, capabilities addresses complex process of firm such as customer relationship, product development, or supply chain management (Schreyögg & Kliesch-Eberl, 2007). At the outset, it is important to recognize that the distinction between capabilities and assets is not a simple task (Andersen & Kheam, 1998). However, firm capabilities are argued to be the most important factor in determining firm success Srivastava, et al., (1998)and Bontis & Fitz-enz, (2002). Confirming this Grant, (1996) postulated that success of a firm depends on knowledge or know-how of employees. Similarly Lado, et al., (1992) firm performance have a link to expertise, know-how and skills of managers. Meanwhile suggesting the importance of capabilities to a firm McEvily & Chakravarthy (2002) suggested that know-how of employees generates more durable returns than any other resource due to the complexity and tacit nature of the notion. Brush & Chaganti, (1999) asserted that variation in performance is explained by capabilities of the firm. Furthermore, Galbreath (2005) write since capabilities are embedded to firm experience and learning it is considered that capabilities are difficult to copy or duplicate due to the 'highest level of causal ambiguity' (p. 982).

Reviewing the above constructs identified, following summaries can be developed with seminal works in the domain of strategic management.

III. Conclusion Model Construction and Proposition Development

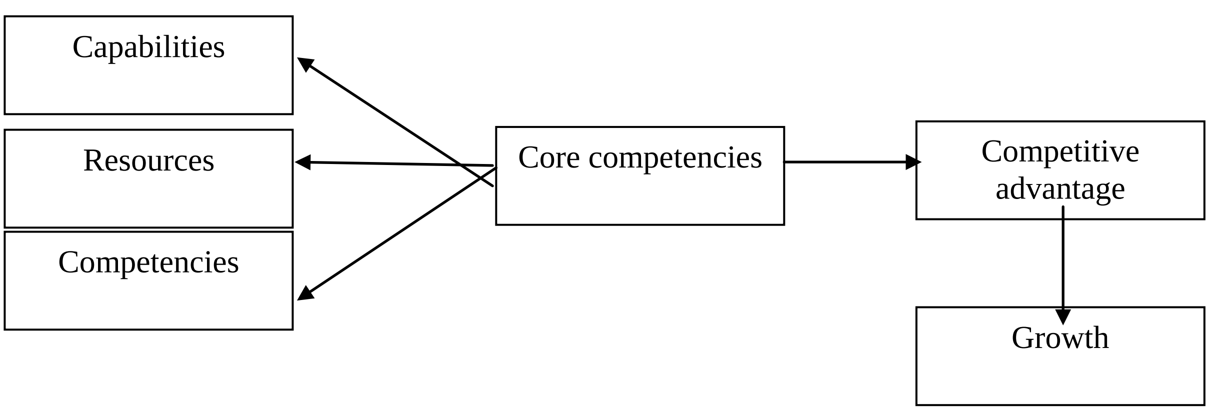
Above table depicts the highly cited works in the domain of core competencies. Importantly, Javidan, (1998) postulated that Prahalad & Hamel (1990) conceptualizations of competences, capability and core competencies have used as synonymous. Also, Javidan (1998) suggested that, Prahalad & Hamel (1990) used these terms as a combination of technological and production skills. Javidan, (1998) opinioned that there are major problems in Prahalad & Hamel, (1990) conceptualizations of core competencies. Javidan (1998) affirmed that the terms are two narrow and it defines only about the manufacturing capabilities of a firm. Also the term brings the confusion to the relationship between capabilities and competencies (Javidan, 1998). As a remedy, Javidan (1998) postulated a 'competence hierarchy' as a remedy to address the called issues of Prahalad & Hamel (1990). They asserted that resources lie at the bottom of the hierarchy which acts as a building blocks to firm's competencies. Adding to this resources definition, Barney (1991) postulated three categories of resources for a typical firm. They are namely; physical resources, human resources and organizational resources. Moving along in the competence hierarchy, Javidan (1998) opinioned that capabilities refer to the firm's ability to exploit its resources. He further proposed that firm capabilities typically includes business processes and routines that acts as the basis to manage the interaction among the firm's resources. He further defined that a process typically transforms input to an output. Also, capabilities are functionally based (Javidan, 1998). Competencies lies in the third level of the hierarchy. Precisely, competencies includes co-ordination and cross functional integration of capabilities of the firm (Javidan, 1998). He further opinioned that in multi-business corporations, competencies can be viewed as a set of capabilities vested in a Strategic Business Unit (SBU). Finally, core competence, (Javidan, 1998) affirmed that it lies at the higher level of the competence hierarchy. Core competence results from the interaction of specific SBU competencies.

Given this detail conceptual definitions of core competence, capabilities, competence and resources proposed by Javidan, (1998), the researchers bring another recent highly cited conceptualizations of the concepts proposed by Ljungquist (2007). However, Ljungquist (2007) criticize Javidan (1998) competence hierarchy and emphasized that, competence hierarchy apparently reasonable, but definitions of the associated concepts are not explicitly defined (Ljungquist, 2007). As a remedy, Ljungquist (2007) proposed the core competence model with empirical and conceptual applications to practitioners.
Overall, accepting the conceptualizations of Ljungquist (2007) we intend to develop a proposition as follows.

Proposition one: Capabilities, competencies and resources are the dimensions of core competencies and identical core competencies lead to gain a competitive advantage for a firm.

Proposition two: Competitive advantages usually proceeds to grow a firm.

Accordingly, following model is constructed.



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Authors

First Author – Hirindu Kawshala, Lecturer (Probationary) , Department of Commerce and Financial Management, Faculty of Commerce and Management Studies, University of Kelaniya Sri Lanka, hirindu@kln.ac.lk