

S 2 I NEWS

November, 2002

Welcome to the Premiere Edition of S2I News

Welcome to the first edition of our newsletter. The aim of this newsletter is to present information on topics important to today's high-tech leaders. We hope these articles will help you develop a rational framework useful for guiding your organisation's innovation and strategy.

In this introductory series, we dig deeply into the topic of core competencies. This first edition, "Why Core Competencies Are Important," provides an introduction to this often misunderstood subject.

Future articles will include related topics such as:

- Developing a framework for identifying your core competencies.
- How to identify your core competencies using a top-down approach.
- How to identify your core competencies using a bottom-up approach.
- How to leverage your core competencies.
- How to establish a core competence building agenda.

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Why Core Competencies Are Important

Core competencies are widely accepted as a key component of corporate strategy. The term was originally coined by Professors C.K. Prahalad and Gary Hamel in their 1990 Harvard Business Review article: "The Core Competence of The Corporation."

But, believe it or not, many top management teams pay only lip service to the notion of core competencies. We consider this a big mistake, because there is a lot of potential competitive advantage associated with a well-executed core competence strategy.

To understand why, you need to tune-in to what management scholars call the resource-based view (RBV) of the firm. This perceives companies as bundles of resources.

To the extent that these resources that are rare, valuable, difficult to imitate and without substitute, they produce "resource barriers" that other firms find too costly to imitate. This results in a competitive advantage for the firm.

In other words, the type, magnitude, and nature of a firm's resources and capabilities are important determinants of its profitability.

A key dimension of strategy formulation, then, is the task of making appropriate choices about expenditures with a view to accumulating and deploying the required resources.

Resources can be thought of as tangible physical and human resources such as capital equipment and the skills of individual employees, and intangible assets such as patents and reputation.

They can also be viewed as factors that are owned or controlled by the firm or anything that could be thought of as a strength or weakness of a firm. Resources (and capabilities) are a source of uniqueness for the firm and are variously distributed across firms.

Core competencies can be thought of as the highest level of abstraction of these "bundles of resources" and are complex combinations of various knowledge and skill bases.

They last longer than individual products or services and change only slowly over time. They do not diminish with use but are enhanced as they are applied to new situations.

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S2I News and Proprietary Research

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This newsletter should not only discuss topics *WE* think are important; it should address topics *YOU* feel are important. Therefore, we ask you to help us by identifying your areas of greatest concern. In particular, we would like to know:

- what are your top two concerns (your biggest worries)?
- what are your top two desires (your favourite wishes)?

Please take five minutes and prepare your thoughts. We would value an email from you to info@strategies2innovate.com with “research-high-tech-needs” in the subject and your feedback in the text. Don’t forget to add your

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Your inputs will be treated confidentially. We will communicate only the aggregate results of our research. That way you benefit from this information, while your own feedback remains confidential.

The information will also help us select topics for **S2I News** that are most relevant to your current and future needs.

Core Competencies

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Such attributes increase the importance associated with core competencies.

Although very descriptive, their article lacked a clear definition of core competence, which has resulted in cross-industry variation in the meaning.

Contrary to common wisdom, core competencies are not just “what your firm does very well” or “what your firm does better than your competition.”

The following phrases have been used to describe core competencies in the body of literature and will give you a better feel for what they really are:

- a synthesis of a variety of skills, technologies, and knowledge streams
- a bundle of skills and technologies rather than a single discrete skill or technology that enables an organization to deliver value by providing a particular

benefit to the customer

- the bundle of firm-specific knowledge, skills, technological capabilities and organisation that form the basis of the firm’s ability to create value in ways that other competitors cannot do so easily

- the knowledge set that distinguishes and provides a competitive advantage and that differentiates an organization strategically

- the fundamental abilities that a firm is uniquely good at in a competitive sense

- the collective learning of the organization that relates to harmonizing multiple streams of technology and co-ordinating diverse production skills.

- that which enables the firm to perform business activities particularly well compared to its competition.

In our next issue, we will develop a clear framework for understanding core competencies - one that you can use to identify the core competencies in your own organization.

See you next issue!

(Note: This article and subsequent articles synthesize much of the work on core competencies from the body of literature. For information regarding references to the literature, please visit our innovation strategy knowledge portal at www.strategies2innovate.com and follow the links to “Your Core Competence Strategy”)