

S 2 I NEWS

January, 2003

Welcome to S2I News 2003

We wish you a Happy and Prosperous New Year for 2003! The first edition of our newsletter appeared in November 2002 with the feature article "Why Core Competencies are Important." *S2I News* was not published in December because this is such a busy time for our readers.

Now that the New Year has begun, we are resuming our series of articles on core competencies.

This second edition, "What Core Competencies Really Are," provides an in-depth discussion of the nature of core competencies and dispels some of the common myths surrounding this subject.

Future articles will include related topics such as:

- 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.

(Continued over page)

What Core Competencies Really Are

In our introductory article we discussed how the resource-based view of the firm provided the background for core competencies based on the work of C.K. Prahalad and Gary Hamel.

Unfortunately, there has been considerable cross-industry variation in the meaning of core competencies, how they might be identified and how they should be exploited.

We want to start by debunking two common misconceptions or myths about core competencies.

MYTH # 1. *Core competencies are what your firm is good at.* This is a misleading and potentially dangerous belief. Your firm may be good at certain practices, but do those (practices) provide you with competitive advantage leading to superior returns? What if your firm is happily doing what it does well, only to find the markets have slowly disappeared or competitors have edged you out?

MYTH # 2. *Core competencies are what your firm does better than your competition.* This is a similar misleading notion. You might be better than your competitors in logistical control or distribution management.

But what if your competitors just so happen to have superior

products and better brand recognition leaving you with a shrinking market share?

Core competencies are just not that simple! If they were, we would all have them. Competitive advantage comes at a cost!

While the original academic work on core competencies was very descriptive, it did not provide a crisp definition for managers to implement the concept. What we have done is to synthesize much of the thinking about core competencies over the last decade into this concise definition:

"Core competencies are those combinations of complementary knowledge and skill bases that are difficult for competitors to imitate; they enable the firm to execute one or more critical processes that create substantial customer value in a wide variety of ways and at a best-in-class standard."

Core competencies are embodied within the firm's personnel, are embedded within the technical and managerial systems and are shaped by the firm's culture."

Core competencies can be best understood in terms of their composition attributes, resource-

(Continued over page)

S2I News and Proprietary Research

(Continued from previous page)

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 is your top concern (your biggest worry)?
- what is your top desire (your favourite wish)?

We would value an email from you to the address below with

S2I News is a monthly publication of Strategies 2 Innovate. It aims 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.

Strategies 2 Innovate supports high-tech leaders by developing and implementing successful innovation strategies. Read about us and visit our **knowledge portal** at the web address below, or call us toll free at 1-866-978-8242.

To request a company brochure, send an email with "send-brochure" in the subject and full contact details in the text. To register for this newsletter, send an email with "send-newsletter" in the subject and full contact details in the text.

info@strategies2innovate.com
www.strategies2innovate.com

"research-high-tech-needs" in the subject and your feedback in the text, plus your contact details.

Your inputs will be treated confidentially. We will communicate only the aggregate results of our research. The information will help us select topics for *S2I News* that are most relevant to your current and future needs.

Core Competencies

(Continued from previous page)

based attributes and organizational attributes as described below.

Composition attributes help us describe the content of core competencies in terms of descriptors such as: a synthesis of skills, technologies, and knowledge streams; bundles of skills and technologies; diverse production skills; deep understanding in technical areas; essential technologies, etc.

Resource-based attributes are understood in terms of being:

- Valuable:** making a significant contribution to customer-perceived value associated with end products
- Rare:** competitively unique or at least not common; a significant source of competitive differentiation.
- Difficult** for competitors to **imitate:** usually resulting from complexity and a significant investment in time and money.
- Durable:** longer lasting than individual products or services.
- Extendable:** contribute to the competitiveness of a range of products or services; a well-spring

of future product and business development; provide potential access to a wide variety of markets.

Organizational attributes refer to the way your organization perceives and manages its core competencies

a) **Organizational Control:** Seek to control those competencies that make biggest contribution to customer value. Honda would never yield its manufacturing responsibility for its engines.

b) **Organizational Consistency** in resource allocation, and a willingness to think long-term.

c) **Organizational Dynamics:** continuous improvement and enhancement; building world leadership.

d) **Organizational Learning:** co-ordination, integration and harmonization of diverse skills, knowledge and technologies; cumulative knowledge base; understanding of core competencies across the entire organization.

In our next issue, we will look at the process of identifying core competencies, one that you can apply to 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 more information and for references to the literature, please visit our innovation strategy knowledge portal at

www.strategies2innovate.com and follow the links to "Your Core Competence Strategy")