A LITERATURE REVIEW ON CORE COMPETENCIES

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ABSTRACT

The purpose of this paper is to outline the major approaches accumulated in the core competence literature. The construct, since its introduction in 1990 by Prahalad and Hamel, has received a lot of attention. Although many researchers have attempted to bring core competence into practical use, the literature depicts a lot of interrelated concepts which are sometimes used interchangeably. Resources, capabilities, competence, core competence, distinctive competence, and core distinctive competence are all used to mean similar or sometimes exactly the same thing. Thus, this work aims to bring forth insight as to the nature of the construct, make a significant contribution in terms of clarification, and finally set a sound ground for further model building. Research shows that core competence is at the heart of all competitiveness. Therefore, we believe that firms, managers, and researchers should have a more clear understanding of a construct that will benefit them in highly competitive business environments.

Keywords: Competence, core competencies, capabilities, resource-based view

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1. INTRODUCTION

Core competence is a critical issue in today’s highly competitive business environments. The construct can be traced back to the seminal work by Prahalad and Hamel in 1990. Prahalad and Hamel (1990) define core competence as the ability of a firm to learn collectively how to coordinate various technologies and skills within the organization in order to deliver better value. Hamel and Prahalad (1994, p.199) later on expanded the definition into “skills and technology that enable a company to
provide benefit to customers.” In other words core competence refers to the coordinating ability of the firm to deliver the best it can. Prahalad and Hamel’s views have been interpreted by various authors. One common theme which prevails is that at the root of all competitive advantages lies core competence (Torkkeli and Tuominen, 2002). Therefore core competence is a critical strategic tool in understanding the foundation of competitive advantage.

According to Prahalad and Hamel (1990) competence and core competence are actually different concepts. They explain the differences as follows (Ljungquist, 2007):

- A core competence must make a significant contribution to customer benefits,
- A core competence should be inimitable and must be hard to imitate by rivals, and
- A core competence should have access to different marketplaces.

According to Yang (2015) core competence is the efficient integration of knowledge, technology, resources, techniques, employee skills, and management skills of an organization. He also identifies core capability as the unique management ability of core competencies to develop novel products, services, and processes. Petts (1997) claims that core competence is becoming more crucial for competition in business environments. He clarifies attributes of core competencies as 1) complexity, 2) invisibility, 3) inimitability, 4) durability, 5) appropriability, 6) non-substitutability, and 7) superiority.

Javidan (1998) asserts that there must be a certain hierarchy of competencies and that not all competencies of a firm have equal weight. This line of thought is also consistent with the fact that a firm cannot possibly be best at everything. As Kothandaraman and Wilson (2001) argue, a firm is lucky to have more than two competencies. This assertion also supports Prahalad and Hamel’s view on core competence to be the source of competitive advantage. A firm can be best at usually only a very few and limited aspects. These aspects are the firm’s capabilities. Such capabilities are sometimes referred to as competencies as well. Apple’s design capability, McDonald’s’ exceptional cost control performance, Wal-Mart’s very effective system of managing customer information (Kothandaraman and Wilson, 2001), Zara’s extremely short time to market, and 3M’s outstanding expertise in the adhesives’ market are among the examples of most agreed upon core competencies.

Furthermore, according to Javidan (1998) resources exist and they vary in quality and availability for a firm. As only a handful of these resources can effectively be turned into capabilities that deliver higher value, the firm accumulates experience in time in these more specific areas. These capabilities of being more experienced in certain areas can then be transformed into valuable competencies through deliberate investment. This deliberate investment takes a lot of human power and effort. Through such investment and efforts these competencies will convert into one or a very limited number of core competencies. Thus core competence can be said to build upon continuous and deliberate investment and accumulation of experience. Such competencies are able to provide the firm with a well-coordinated system that aims to deliver better value to customers.

2. DEFINITION OF CORE COMPETENCE
Core competence, its definition and content have long been criticized by authors to be less than clear (Ljungquist, 2007). Thus, the application of the concept has been quite difficult in the past twenty-five years. Capability and competence have been defined
and used interchangeably by several authors including Spanos and Prastacos (2004). Even Hamel and Prahalad (1994) have referred to skills, competencies, and capabilities interchangeably. Authors including Ray et al. (2004) and Peteraf and Bergen (2003) have used the terms capabilities and resources interchangeably as well. Therefore, the literature definitely signals a need for construct clarification. This will help practitioners to make better use of core competence. Through a clearer understanding core competence and its benefits can be put to better use.

Ljungquist (2007) claims that core competencies are the most difficult to achieve things for a firm. Therefore they are at the pinnacle of all values that the firm possesses. In this regard, resources all have different weights in terms of their potential to turn into competencies. Furthermore, only a very limited number of competencies can reach the core competence level. This fact has both positive and negative connotations for a firm. On the negative side, it means that creation of core competence is really demanding. On the positive side, it means that once a firm gains a core competence it is really difficult for the competitors to copy and imitate it. Thus, there are both advantageous and challenging elements regarding the construct. Savory (2006) argues that organizational learning which can happen at various forms such as single loop learning, double loop learning and triple loop learning occurs mainly at the individual and team levels. Thus, a certain hierarchy of learning needs to be accumulated in time to qualify as a competence.

According to Barney (1991), resources can be sources of sustainable competitive advantage if they have four qualities. If resources are valuable, rare, not perfectly imitable, and non-substitutable, then they form the foundation of a sustainable competitive advantage. Therefore, those resources that do not fall under these four categories cannot be classified as building blocks of core competence. In this regard, resource-based view suggests the characteristics of resources that make them viable for core competence creation.

3. TYPES OF CORE COMPETENCIES

In the literature, different classifications of “core competencies” have been defined. Prahalad and Hamel (1990) outline three major categories of such competencies: 1) Market access competencies, 2) Integrity-related competencies, and 3) Functionality-related competencies. According to Gilgeous and Parveen (2001) market access competencies help a firm get closer to its customers (e.g. such as brand management, sales and marketing, technical customer support, and logistics), integrity related competencies help a firm deliver products/services faster and with higher quality (e.g. quality management, knowledge management, time management, just in time systems, and faster production), and functionality-related competencies help a firm deliver more functional products/services (e.g. innovation management, more and improved features, and exceptional after sales services beyond normal expectations).

Thompson (1996) identifies strategic core competencies of organizations as learning and awareness competencies, process (change) competencies, and strategy content competencies. These competencies which influence organizational effectiveness and productivity are most important for organizations’ strategic performance and success. Ashton (1996) specifies nine core competencies which have certain implementations in the literature. These competencies are customer service orientation, flexibility, commitment to organizational values, achievement orientation, entrepreneurship and proactivity, creative problem solving and decision making, empowerment, and talent/performance management. According to Coyne et al. (1997)
core competencies can be grouped in two broad categories. These categories are 1) **insight and foresight competencies** and 2) **frontline execution competencies**. Insight and foresight competencies help firms to find or learn from novelty that creates possibilities to move the firm much faster than its rivals. Frontline execution competencies are critical where the end product or service and/or their quality is dependent upon the execution quality of the frontline personnel. Thus, certain advantages are possible for firms and brands where their products’ perceived quality is affected from such employee involvement.

Baker et al. (1997) explain the types of core competencies in the existing literature as strategic competence, distinctive competence, functional competence, and individual competence. They also define another competence which is named as competitive competence. Competitive competence differs from the other four competencies mentioned above. Competitive competence is related with external environmental conditions whereas other competence measures are related with internal organizational standards. So, competitive competence is more dynamic in nature. Eden and Ackermann (2000) add another perspective to the literature by distinguishing between **distinctive** and **core distinctive competencies**. Distinctive competencies refer to hard to imitate strengths a firm has that lead to sustainable profit generation. Core distinctive competencies, on the other hand, help the firm drive its aspirations. In other words, core distinctive competencies lead the firm forward whereas distinctive competencies differentiate one firm from another in the same industry.

Wang et al. (2004) indicate three broad types of core competencies as 1) marketing competencies, 2) technological competencies, and 3) integrative competencies. Their proposed model is an effort to integrate the different types of core competencies and explore their relationships with firm performance. They assert that market turbulence and technological turbulence are critical factors that moderate the effect of core competencies have on firm performances. Their study which focused on only high tech companies in China reports sound support that core competencies really have significant effects on performance. Furthermore, they also reported the significant effects of market and technological turbulence on this relationship.

Abel (2008) claims that there is a link between core competencies and knowledge capital. She identifies three main competencies which are related to firms’ explicit and implicit knowledge. These main competencies are technical competence, cognitive competence, and project competence. Technical competence refers to analysis and engineering abilities of a firm. Cognitive competence refers to understanding, reasoning, and creativity skills of employees. Lastly, project competence focuses on the management and communication styles of the organization. In another categorization, Mitchelmore and Rowley (2010) define four types of organizational competencies. First type of competence is entrepreneurial competence which involves idea generation, formulating strategies, risk taking, and innovativeness. Second type of competence is business and management competence which involves marketing skills, business planning, management skills, and targeting skills. Third type of competence is human relations competence which involves leadership skills, motivating ability, building organizational culture skills, and hiring skills. The last type of competence is conceptual and relationship competence which involves communication skills, decision making skills, analytical skills, and organizational skills.
The works of Yang et al. (2006) in the literature summarizes the final competencies as problem solving, universal vision, sense of safety and environment protection, planning, strategic planning, innovation, customer centricity, adaptability to change, teamwork skills, communication, strategic leadership, cultivating the subordinates, coaching, proactive action, IT skills, quality management, self-management, emotion management, organizational learning ability, business negotiation, decision making, source effectively, and domain knowledge. These critical aspects reflect all major types of competencies in a comprehensive manner.

4. MAJOR APPROACHES MODELLING CORE COMPETENCIES

Researchers have attempted to tackle the issue of modelling core competencies of organizations in several different lines of thought. There have been considerable novel approaches in the literature attempting to integrate the concepts. One of these approaches can be credited to Long and Vickers-Koch (1995). Their approach is contradictory in nature to most researchers in the sense that they define core capabilities as the sum of core competencies and strategic processes. They claim that core capabilities are the most critical and differentiating abilities a firm has. This novel approach highlights the growing need in the literature for an integrative and comprehensive understanding.

Sengupta et al. (2013) have proposed a model for core competence. This model considers person-focused competence, job-focused competence, and role-focused competence as the major component categories. Person-focused competence refers to employee characteristics and values required fulfilling a stated job. Job-focused competence is related with explicit and implicit knowledge and skills of employees. Role-focused competence focuses on covering demands of the specified job.

Another approach to modeling core competence can be traced back to Yang et al. (2006). In this model, there are four competence perspectives, as depicted in Figure 1: internal-out (resource-based review) rationale, external-in (environment-strategy-structure) rationale, the top-down (strategic thinking oriented) viewpoint, and the bottom-up (core competence oriented) viewpoint. The model links the competencies at both individual level and the organizational level and combines together corporate strategy with organizational resources.

![Figure 1 Process Oriented Core Competence Identification Model](http://www.iaeme.com/IJM/index.asp)

**Source:** Yang et al. (2006, pp. 65)
Fleury and Fleury (2003) claim that there is a dynamic relationship between organizations’ competitive strategy and their core competencies. In their strategies-competencies model, they determine organizations’ competitive strategies in the market as operational excellence, product innovation, and being customer driven. On the other hand, they identify competencies in three dimensions. These dimensions are operations/manufacturing, product development, and sales and marketing.

Ljungquist’s (2007) model outlines insightfully how resources, capabilities, competencies, and core competence are all linked together. According to Ljungquist (2007) resources provide the inputs to value creation and in this way they help utilize core competence of a firm. Capabilities, on the other hand, comprise of systems and routines and they support the existing core competence. Competencies are achieved through the developments made at the individual and team levels. In this sense, competencies are useful in improving the core competence.

According to Quelin (2000), management of competencies is a strategic issue for firms. He further claims that over the past fifty years paradigms of firms, especially in the R&D activities, have shifted. He notes four major eras with different characteristics. In the first era, 1960’s, firms tried to create technology driven moves without much consideration of the market or the customers. In the second era, 1970’s, the focus was on the market dynamics where only a limited number of projects were concentrated upon. In the third era, 1980’s, iterations between R&D and the marketplace were the main focus. In the last era, starting from the 1990’s, customer focus and inter-firm cooperation became the main areas of concentration. In this last era, which also covers our contemporary management life, knowledge-based and competence based management styles have become the main norms. Based on these ideas, we can assume that strategic resources also include strategic relationships with the customers, suppliers, and competitors. Firms can gain access to different set of resources and feed their competencies and core competencies with them.

DISCUSSION AND CONCLUSION
Core competence, which has been introduced into the literature roughly twenty five years ago, is a strategic issue for firms. Its meaning can be summarized as “what a company does best.” Literature on this heavily discussed construct is full of overlaps and related concepts that are sometimes used interchangeably. Our study tried to provide a general sense of all the major approaches highlighting certain similarities and differences between them. We hope that through such an overview and an attempt to clarify we can reach a reliable ground for comprehensive model building. Thus, we suggest that as a following step researchers attempt to reach a conceptual model which then can be operationalized and tested quantitatively.

We believe that the biggest gap in the literature on core competencies is the lack of practical use. So far, research has mostly concentrated on highly descriptive work. Therefore, we believe that practitioners and researchers alike can gain certain perspectives from our contribution. This literature review is not one without any limitations. The content of the core competence construct still is highly Western culture based. We believe that a more comprehensive approach in the future that embodies the Eastern way of thinking and managing can benefit the literature significantly. Literature seems to focus also on mostly well-known and big firms. We claim that this nature of the research also lacks certain rich content which can prevail from smaller firms.
Core competencies are the integration of knowledge capital, human capital, financial and non-financial capital of the organizations. These assets are the sources of strategic competitive position of organizations in the marketplace. Organizational core competencies are crucial dimensions of the corporate strategic management process. For this reason, core competencies contribute to organizations in providing a powerful competitive advantage.

Lastly, the missing link in the literature between organizational culture and core competencies seems to stand out as a major area to be considered in the future. The values and the dominant organizational culture of the firms may have significant effects of core competence building. Organizational culture, through its unique nature can be a significant source of competitiveness in all industries. Furthermore, our understanding of this relationship can provide us with a more comprehensive perspective. In this regard, we can understand, both as practitioners and researchers, why certain firms can create distinctive capabilities that qualify as core competencies which are truly unique and extremely difficult to imitate. By gaining a richer perspective in this way, we can provide firms and managers with clearer and more strategic paths into core competence development. In the highly competitive contemporary business environments that require sustainable competitive advantages, core competencies will stand out to be one of the top strategy issues for managers, firms, and researchers.

REFERENCES

A Literature Review on Core Competencies


