Core Competency

Core Competency

❖ Core Competency was introduced by CK Prahlad and Gary Hamel in a 1990 Harvard Business Review article "The Core Competence of the Corporation"

Core Competency

❖ They define Core Competency as:

❖ "a harmonised combination of multiple resources and skills that distinguish a firm in the marketplace"

❖ These comprise the foundations of the firms Core Competency

Core Competency

❖ Core Competency has three characteristics

❖ Provides access to a wide variety of markets

❖ Makes a significant contribution to the perceived customer benefits of the end product

❖ Difficult to imitate by competitors

Core Competency

❖ A Core Competency of Federal Express (FedEx) is logistics management

Core Competency

❖ Prahlad and Hamel demonstrated that Core Competency leads to the ability to create core products which in turn are the basis for many other products

❖ These are developed by continuous improvement rather than a single major breakthrough
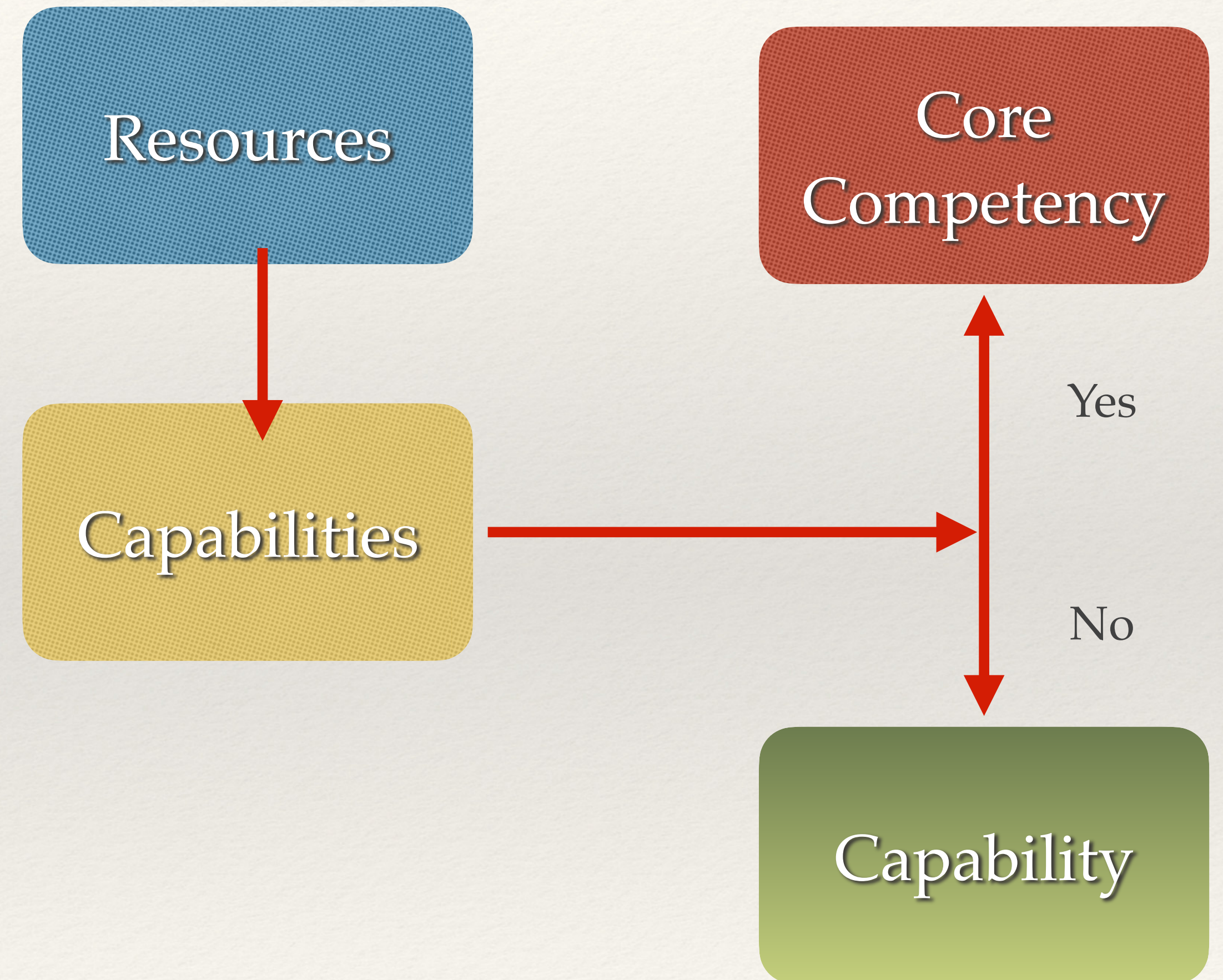
Core Competency

❖ Prahlad and Hamel defined Core Competency as the engines for the development of core products and services

Core Competency

❖ Core Competency Analysis is the process of identifying a firms core competence

❖ Develop strategies that grow market share, profitability and innovation

Core Competency

❖ Resources and Capabilities are the building blocks on which Core Competencies are built

Resources

Capabilities

Core Competency

Yes

No

Capability

Core Competency

❖ Resources are the inputs to a firm in the production process

❖ These can be human, financial, technological, physical or organisational

❖ The more unique these resources are, the more likelihood the firm will have Core Competency

❖ Resources should reinforce the firms strengths and mitigate its weaknesses

Resources

Capabilities
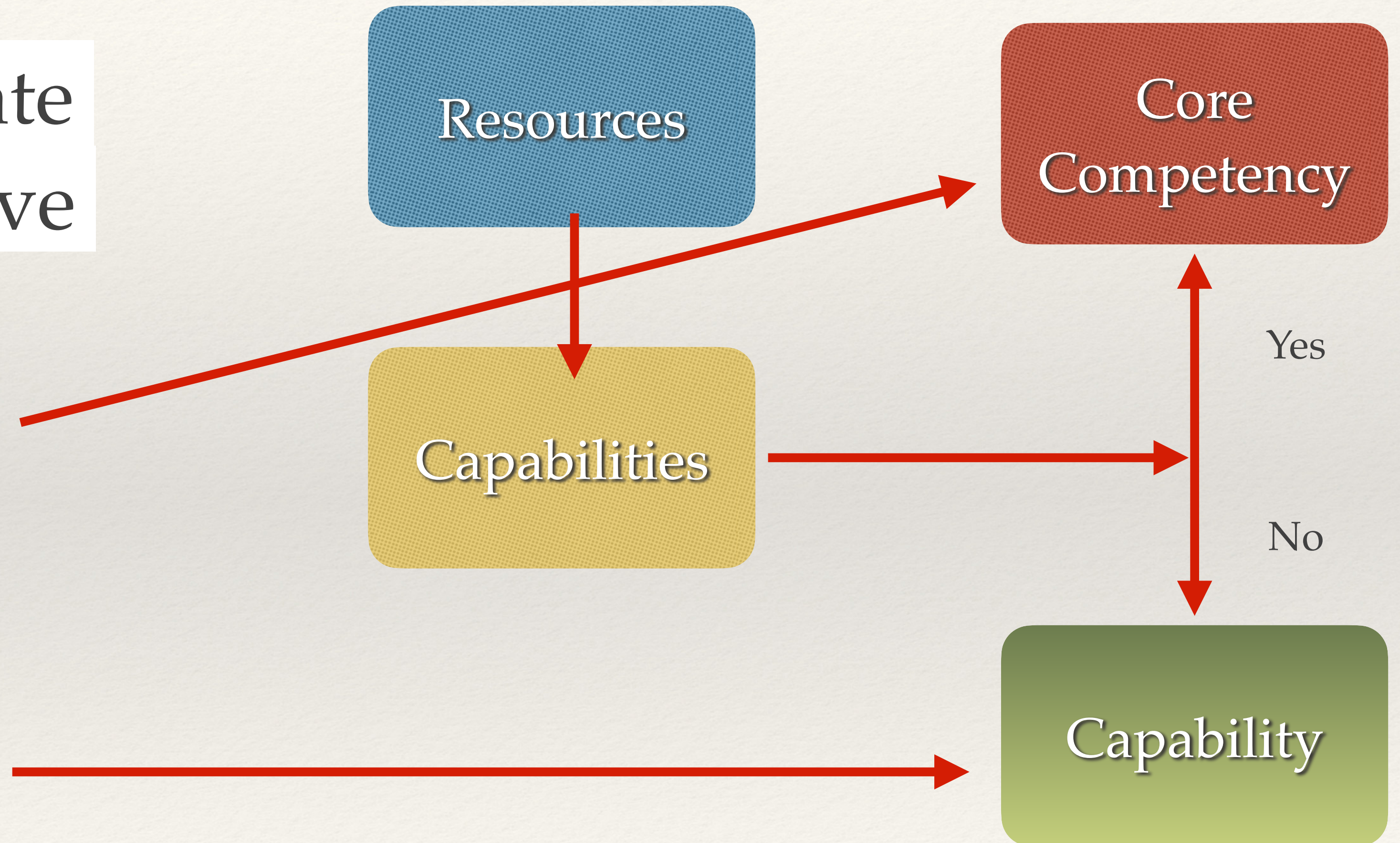
Core Competency

Yes

No
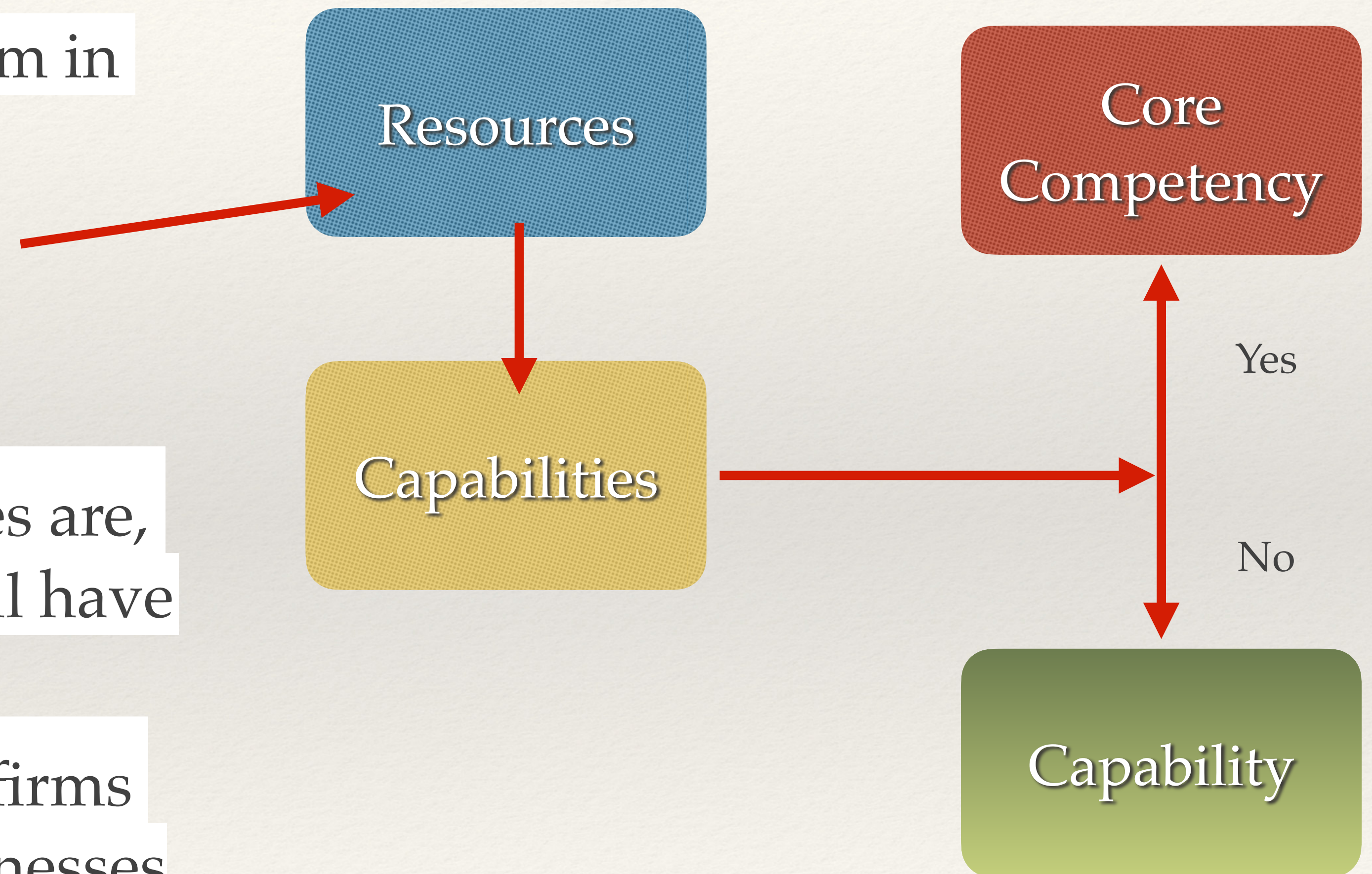
Capability

Core Competency

- ❖ Capabilities are the result of organisational system, process and controls

- ❖ They are intangible

- ❖ The firm should be creating strategies to develop new resources and capabilities

Resources

Capabilities

Core Competency

Capability

Yes

No
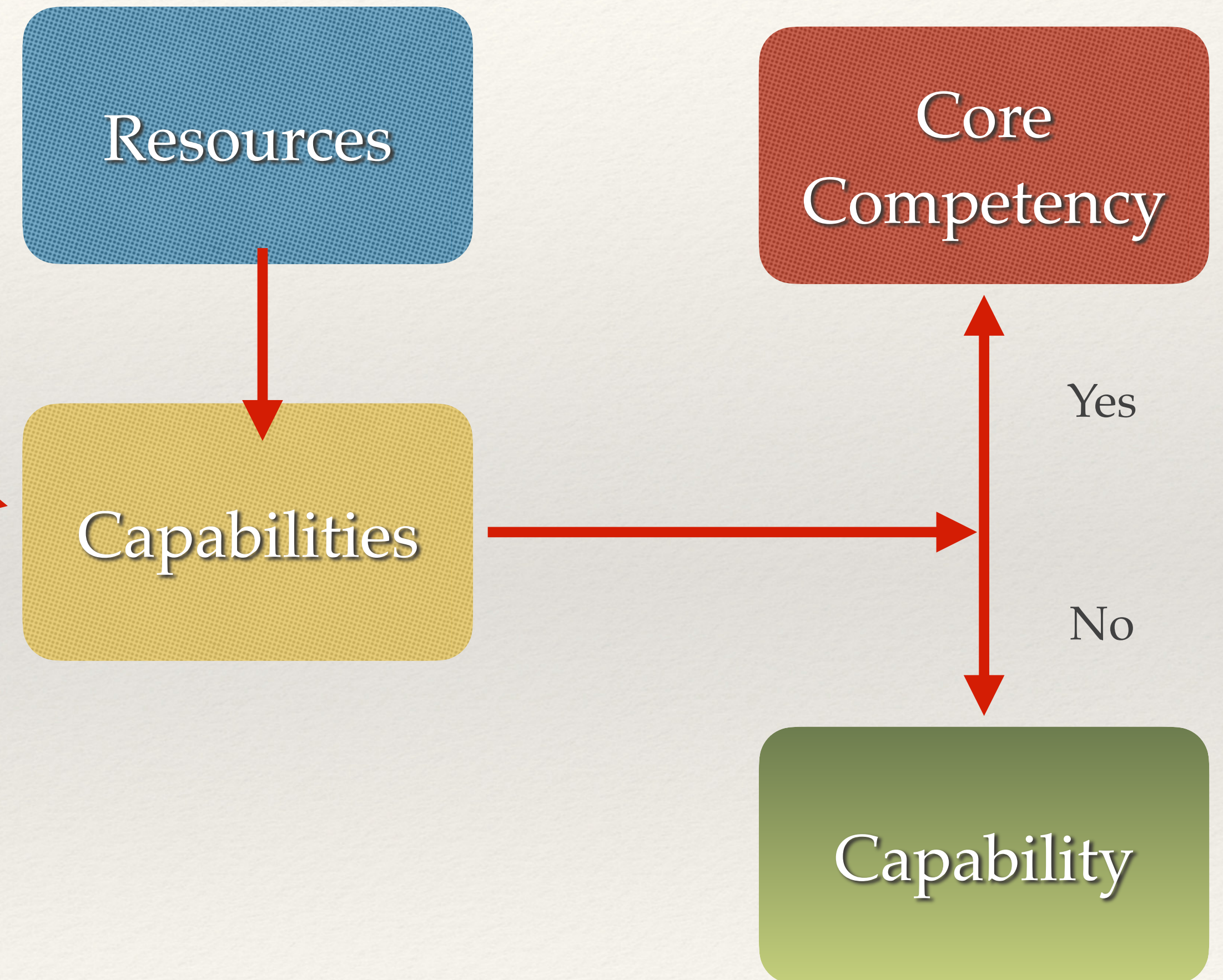
Core Competency

- ❖ Does a capability create sustainable competitive advantage?

- ❖ If Yes, then its a Core Competency

- ❖ If No, then its a non strategic capability

Resources

Capabilities

Core Competency

Yes

No

Capability

Core Competency

- Core Competencies may include:
  - technical superiority (Google in search)
  - customer management (Zappos)
  - efficient processes (Toyota JIT)

Core Competency

❖ Each firm has a specific area which it does better than its competitors and which it is very difficult for its competitors to copy

Core Competency

❖ Core Competency is connected to Porter's Value Chain as core competencies are a sub category of the Primary Activities

❖ It contrasts to Porter's Five Forces where the emphasis is on the External Forces on the firm

❖ Core Competency focuses on the internal capabilities of the firm as the strategic driver

Core Competency

❖ If we understand the concept of Core Competency we can begin to understand how the firm can create Sustainable Competitive Advantage which is the key to value creation

❖ Build this into your valuation model inputs and you will understand "why" your business is valuable.

Core Competency