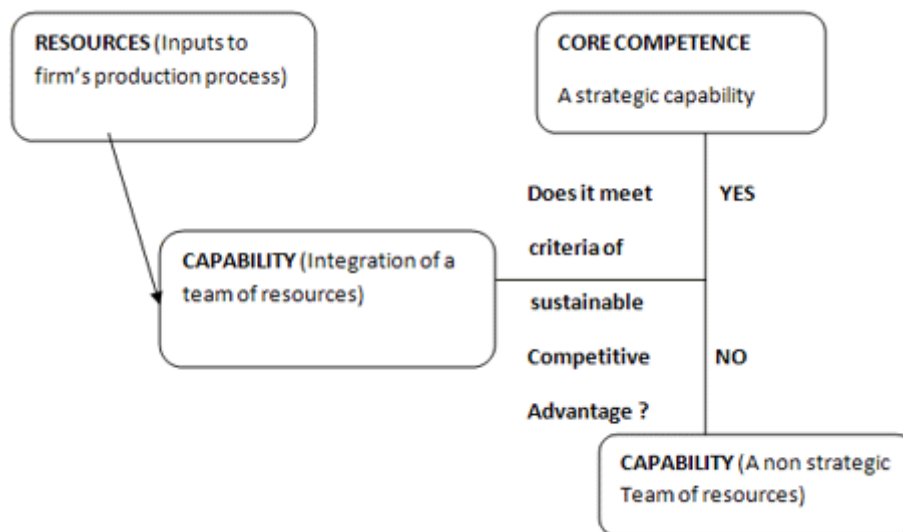


# Core Competencies - An essential for Organizational Success

## What is Core Competency?

**Core competency** is a unique skill or technology that creates distinct customer value. For instance, core competency of Federal express (Fed Ex) is logistics management. The organizational unique capabilities are mainly personified in the collective knowledge of people as well as the organizational system that influences the way the employees interact. As an organization grows, develops and adjusts to the new environment, so do its core competencies also adjust and change. Thus, core competencies are flexible and developing with time. They do not remain rigid and fixed. The organization can make maximum utilization of the given resources and relate them to new opportunities thrown by the environment.

**Resources** and **capabilities** are the **building blocks** upon which an organization create and execute value-adding strategy so that an organization can earn reasonable returns and achieve strategic competitiveness.



**Figure: Core Competence Decision**

Resources are inputs to a firm in the production process. These can be human, financial, technological, physical or organizational. The more unique, valuable and firm specialized the resources are, the more possibly the firm will have core competency. Resources should be used to build on the strengths and remove the firm's weaknesses. Capabilities refer to organizational skills at integrating it's team of resources so that they can be used more efficiently and effectively.



Organizational capabilities are generally a result of organizational system, processes and control mechanisms. These are intangible in nature. It might be that a firm has unique and valuable resources, but if it lacks the capability to utilize those resources productively and effectively, then the firm cannot create core competency. The organizational strategies may develop new resources and capabilities or it might make stronger the existing resources and capabilities, hence building the core competencies of the organization.

Core competencies help an organization to distinguish its products from its rivals as well as to reduce its costs than its competitors and thereby attain a competitive advantage. It helps in creating customer value. Also, core competencies help in creating and developing new goods and services. Core competencies decide the future of the organization. These decide the features and structure of global competitive organization. Core competencies give way to innovations. Using core competencies, new technologies can be developed. They ensure delivery of quality products and services to the clients

## Core Competency Theory of Strategy

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### Core Competency Theory

The core competency theory is the theory of strategy that prescribes actions to be taken by firms to achieve competitive advantage in the marketplace. The concept of core competency states that firms must play to their strengths or those areas or functions in which they have competencies. In addition, the theory also defines what forms a core competency and this is to do with it being not easy for competitors to imitate, it can be reused across the markets that the firm caters to and the products it makes, and it must add value to the end user or the consumers who get benefit from it. In other words, **companies must orient their strategies to tap into the core competencies and the core competency is the fundamental basis for the value added by the firm.**

### Core Competencies and Strategy

The term core competency was coined by the leading management experts, CK Prahalad and Gary Hamel in an article in the famous Harvard Business Review. By providing a basis for firms to compete and achieve sustainable competitive advantage, Prahalad and Hamel pioneered the concept and laid the foundation for companies to follow in practice.

Some core competencies that firms might have include technical superiority, its customer relationship management, and processes that are vastly efficient. In other words, each firm has a specific area in which it does well relative to its competitors, this area of excellence can be reused by the firm in other markets and products, and finally, the area of

GAUTAM SINGH, HOSPITALITY TRAINER, [www.educatererindia.com](http://www.educatererindia.com) , info.gautam94@gmail.com

strength adds value to the consumer. The implications for real world practice are that core competencies must be nurtured and the business model built around them instead of focusing too much on areas where the firm does not have competency. This is not to say that other competencies must be neglected or ignored. Rather, the idea behind the concept is that firms must leverage upon their core strengths and play to their advantages.

## Some Examples

If we take the examples from real world companies and evaluate their core competencies, we find that many firms have benefited from the application of this theory and that they have succeeded in attaining competitive advantage and sustainable strategic advantage. For instance, the core competencies of Walt Disney Corporation lie in its ability to animate and design its shows, the art of storytelling that has been perfected by the company, and the operation of its theme parks that is done in an efficient and productive manner. Hence, Walt Disney Corporation would be well advised to configure its strategy around these core competencies and build a business model that complements these competencies.

## Closing Thoughts

The important aspect to be noted is that **core competencies provide the companies with a framework wherein they can identify their core strengths and strategize accordingly**. Of course, the identification and evaluation of core competencies must be done as accurately and reliably as possible since the divestment of non-core areas must not lead to the firm missing key areas of operation and competitive advantage. Finally, care must be taken when building the organizational edifice around the core competencies to avoid the situation where many or too few of the competencies are identified leading to redundancies or scarcity

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**Gautam Singh , Hospitality Trainer , 07830294949**

