DEFINING THE CONCEPT OF "CORE COMPETENCIES" IN RELATION TO STRATEGIC MANAGEMENT AND INNOVATION MANAGEMENT

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Abstract: *Core competencies do not have an agreed-upon definition in the literature, even though the popularity of this concept has been rising in the last decades. Traditionally, the concept of core competencies has been discusses in relation to management, in general, and more specifically, in relation to strategic management. In this paper, we analyse the place and value of core competencies in relation to strategic management, while, at the same time, argue that this concept can be enriched when placed in the context of innovation management. In this manner, the concept of core competencies can move away from being defined as an ideally fixed, and rigid part of a business, and can move towards a conceptualization that integrates its dynamic component. We also discuss the case of innovation as a core competency.*
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In the last few decades, more and more authors have used the term "core competencies", but few with the same meaning. Its relevance and growing importance in the field of management is undeniable, but, in this context, there is a risk of transforming this concept in a catch-phrase with little theoretical foundation. Some authors (Kawshala, 2017) have noticed the theoretical fragmentation and proposed further theoretizations and integrative models. In this paper, we analyse the definitions in the literature and how they relate to strategic management, on one hand, and to innovation management, on the other hand.

1. Defining core competencies

The concept of core competencies has become popular after Prahalad and Hamel's article, "The Core Competence of the Corporation" (1990). The two authors argue that, in order to obtain a long-term competitive advantage for a company, businesses must identify and invest in core competencies, which are compared with a root system of a tree, which, in this metaphor, represents the diversified company.

In order to identify the core competencies, there are three tests which can be applied by a company:

(1) whether the competency can provide access to varied and wide markets,

(2) whether the competency can make important contributions for customer, and

(3) whether the competency is difficult to immitate by competitor companies. More generally, core competencies represent a form of collective learning that enables the company to coordinate production, to integrate several technologies, and to involve human resources at multiple levels (Prahalad, Hamel, 1990).

Several authors have built upon Prahalad's and Hamel's understanding of this concept. Edgar and Lockwood (2009) have defined core competencies as "capabilities held by people within a firm that, when applied to create products and services, make a critical contribution to corporate competitiveness".

Kawshala (2017) considers that one of the main characteristics of the core competencies is the presence of an unique set of skills, which can set apart a company from its competition. Core competencies can manifest in the form of know-how (technical or subject matter), business processes, relationships, or even organisational culture. The model developed by Kawshala includes capabilites, resources and general competencies as

the three dimensions of core competencies, which lead to competitive advantage, and, in turn, to business growth.

Other authors point out that the concept of core competencies is also sometimes used under different terms, namely "organisational competencies" or "distinctive capabilities" (Edgar, Lockwood, 2009).

In the literature on strategic management there are different approaches to the types of strategic alternatives. A number of strategic management specialists have developed the concept of "generic" (general) strategies that can be considered as priorities of industrial enterprises directing options and production management in order to obtain competitive advantages in a particular industry or market segment, with a specific product or product line.

Professor Michael E. Porter proposed a classification of generic strategies into:

- differentiation strategies;
- strategies based on low costs;
- targeting strategies that can be adopted in relation to the strategic advantage pursued: focus based on low costs or focusing on differentiation. The model of generic strategies is presented in the form of a two-dimensional matrix: strategic advantages - strategic target.

The differentiation strategy allows to obtain a competitive advantage through the uniqueness (unique character) of a specific attribute of the product offered on the market, which justifies a higher price that is accepted by customers.

The low-cost strategy prioritises all the company's efforts towards the objective of minimizing production and distribution costs at levels below those of competitors. Promoting this strategy requires spending efficiency, preferential access to low-cost input resources, restricting spending for some departments (research and development, advertising, sales, etc.).

The focus strategy involves focusing on one focus criterion: either by differentiation or by reduced costs.

In general, in order to opt for one of the above strategies, management must assess their feasibility in terms of "strengths" and "weaknesses".

Porter recommended adopting a clear competitive position, based on either low costs or differentiation or a targeting strategy, otherwise inadequate results will be obtained. But there are some criticisms of the Porter model. Indeed, the 1990s brought examples that show that the exclusive choice Porter recommends is outdated. Companies are cited that successfully follow a differentiation strategy in combination with a low cost strategy, without affecting financial performance (an example often invoked is that of Toyota, known for the relatively low cost of its products).

Other classifications of strategies according to different criteria have been proposed. Thus, Yvan Allaire and Mihaela Fîrșirotu (1998) group the strategies in the group of domination strategies of including the market dominance strategy through costs and the differentiation strategy, the group of market-wide strategies, with segmentation strategies, geographical expansion strategies and globalization strategies, the group of crenellations strategies, with concentration strategies, specialization strategies and investment strategies, as well as the group of diversification strategies in unrelated industrial sectors, including the strategy of companies in unrelated industrial sectors and the strategies of financial holding companies.

Henry Mintzberg classifies strategies according to two criteria: according to their character and evolutionary state (static strategies and dynamic strategies) and according to the development vector (penetration strategies, market development strategies, product development strategies and development strategies).

G.W. Hofer and D. Schendel proposed a classification of strategies, according to the level and purpose pursued, into 3 main types: firm strategies, economic strategies and functional strategies. According to this classification, company strategies address the formulation of the strategy at the level of each organizational subdivision, whether it is integrated into the overall functioning of the organization or operates independently. Economic strategies must establish the necessary approaches to ensure competitiveness in the industry. Functional strategies must ensure the optimization of resource use and results.

At the level of enterprises and organizations, economic strategies are characterized by the fact that they set overall objectives over long time horizons. An essential criterion for classifying strategies at the level of organizations is the dynamics of the level of objectives that indicate their trend of evolution: increase, constancy or decrease. Among the objectives, the increase of the turnover associated with the increase of the profit rate is predominant. The turnover trend defines 3 types of strategies associated with the dynamics of the level of objectives:

- growth strategy:
- neutral strategy;
- restriction strategy.

The growth (development) strategy has as its basic objective the increase of the turnover, more precisely of the sales expressed in physical units. Development strategies can come in various forms, of which priority can be mentioned: concentration strategies, vertical integration strategies and diversification strategies.

The focus strategy is to focus the company on a single product / service or product line, on a narrow market segment (a niche) or a single technology. The concentration strategy can be achieved in three ways:

- based on market development;
- by product development;
- based on horizontal or vertical integration.

The diversification strategy is the type of development strategy that consists in increasing the number of businesses, products, services, which are essentially different from current business. It can be achieved in two forms: concentric diversification (or correlated) and conglomerate diversification (uncorrelated). The concentric diversification strategy is characterized by the fact that the company is involved in several distinct types of business, by executing products / services clearly different from the current ones, but close in nature, for example with similar technologies, common skills or common markets.

2. The concept of “core competencies” in relation to strategic management

Using a framework based on core competencies allows companies to enounciate strategic architecture and to build competencies in a competitive manner, that supports the company’s sustainable development in the future. The concept of “core competencies” is compatible with strategic management when such competencies are not fragmented, but coordinated in a “strategic architecture” (Prahalad, Hamel, 1990).

The concept of “core competencies” has been used to create an approach to strategy formulation. This approach has had the benefits of underlining the relationship between resources, capabilities and processes, as well as moving beyond the identification of competitive advantage, and strategizing how to sustain it in the long term.

Kak (2004) has applied such an approch to two pharmaceutical companies, for which the core competence were: R&D (in the form of addressing the consumers’ unmet medical needs) and marketing, respectively R&D (in the form of innovative therapies) and dedicated human resources. The three tests proposed by Prahalad and Hamel were applied, and the learning issues were compared. For each pharmaceutical company, a strategy and

core competence was identified: on one hand, to outgrow the company's competition using innovation and global marketing, and, on the other hand, to offer quality health care solutions using R&D and dedicated human resources.

This study (Kak, 2004) shows that, when used together in practical company analysis, the concepts of strategy and core competence can show what and how a company plans to do in order to gain competitive advantage. Moreover, since identifying core competencies assumes identifying certain competitive advantages, we consider that these are indicators that are especially fit for comparing the strategic management of different companies operating in the same field, especially ones that have apparently similar strategies.

3. The concept of "core competencies" in relation to innovation management

Innovation management, understood as a systematic promotion of innovation in organisations at multiple levels, can create a framework for better understanding and defining the concept of "core competencies".

In the context of strategic management, core competencies represent past and present fundamental blocks (e.g., of knowledge, skills, relations) that create distinct value upon which a business can build its future. From this perspective, core competencies can seen fixed and rigid, a view supported when analysing Prahalad and Hamel's view of core competencies. This underlines the need for a company to identify stable advantages, especially when a company develops a high number of products and services, which sometimes seem to have little to do with one another. Therefore, core competencies, when corectly identified, become more than a key to a company's success – they also become an important part of a company's identity. However, even though core competencies are more stable than other aspects of a company's strategy, they should not be treated as fixed or rigid.

We argue that, in practice, core competencies are rather dynamic. As a company grows and changes by adapting to its environment, so do its core competencies. We consider that the dynamic view of core competencies can be supported b Kawshala's model. Since capabilites, resources and general competencies - the three dimensions of core competencies - are subject to change in a business, it is to be expected that the core competencies of a business should be also subject to change.

Innovation management assumes a certain degree of change throught the company, which can relate to the products and services themselves, or to the business processes (e.g., innovation in the production chain, or innovation in the human resource management).

We propose that there are two main ways that companies that use innovation management can relate to core competencies. One possibility is that core compentecies can become more dynamic and subject to change as the company innovates and introduces changes. The other possibility for these companies is that innovation becomes a core compentecy of the company.

Several authors discuss innovation as a possible core competency for companies. For example, J. Kandampully (2002) introduces the idea of innovation as a core competency of services-based companies. He argues that amorphous knowledge is the most important resource for a service company and this leads to the potential of innovation as the core competency of the company, but, also, that innovation alone cannot generate substantial benefits for the company, since it needs to be linked to actual results in a customer-driven marketplace.

Moreover, we also point out that identifying "innovation" as a core competency of a company is rather vague and brings little practical value, at least in comparison to

specifying the type or types of innovation (e.g. marketing innovation, tehnological innovation, management innovation).

4. Conclusion

The concept of "core competencies" needs further theoretical clarifications and agreement between management authors. Even though it is usually analysed from the perspective of strategic management, which brings several practical benefits for companies that use core compentency based strategies, an innovation centered discussion is also important. We conclude that, in the context of innovation management, core competencies can either become more dynamic, or that innovation can be a core compentency of a company that implements innovation management.

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