Difficulties in identifying Company’s Core Competencies and Core Processes

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Outsourcing is getting its speed in today’s quickly changing economic environment. Companies compete for customers, revenue, market share with products and services that meet customer’s needs and they are more than ever interested in outsourcing. Even though Business Process Outsourcing has almost twenty years’ experience, companies are still facing the issue: which functions should be given to third party and which are to be kept in-house.

It is important to realize, that some functions and processes should never be outsourced. To achieve maximum benefit from outsourcing, companies must carefully evaluate their processes and sources of information that are fed into them. After this self-examination, companies can distinguish between their core and non-core processes. This evaluation is essential before any outsourcing decision.

Processes, which are using companies’ core competencies, should not be outsourced, because core competencies create sustainable competitive advantage for a company. This competitive advantage allows operating successfully in common environment and also creates possibility to split into wide variety of related markets. Core Competencies have a major impact on the features of the product or service, which company offers to customers. Core competence is something company can do better than a competitor, i.e. company’s features, which are valuable, rare, difficult to imitate and difficult to substitute. It can be in the range from product development to employee dedication. The starting criteria for determining whether capability is a core competency is the question: is it capable of producing sustainable competitive advantage?

Understanding Core Competencies allows companies to invest in the strengths that differentiate them and set the strategies that unify the entire organization.

It is not right to equate a core competence to a specific product or service. Products and services may frequently change and core competencies are the basement on which products and services are based. Therefore Core Competences are fundamental aspects of a company, like its culture, values, skills, knowledge and abilities, therefore they are not the subject to a sudden change.

It is also important to distinguish core competence from strategy as strategy defines how company defends, builds and transforms core competence over the time.

Core competences are often mixed with core processes. Some authors operate with those two terms as if they meant the same. However core competence and core process are different things. Core processes are built by using core competences.

Even though core competence concept was introduced in 1990 and there were a lot of publicity and discussions dedicated to this subject, amazingly only few individuals understand this concept well and apply it to the business they are in.

Keywords: outsourcing, core competence, core process, key process, critical process, support process, business process outsourcing, strategic outsourcing plan.

Introduction

Outsourcing nowadays is an important force in the global economy and it is significantly reshaping businesses. Business Process Outsourcing (BPO) has emerged as one of the leading business and economic issues of our time. BPO has become a strategic business choice, that can be used to gain and maintain the competitive advantage – the ultimate goal of every company (Zook, 2001). The main goal of participants in any economic activity is to maintain their competitiveness (Snieska, 2007). Typically companies see their possibilities for competitive advantage by:

- comparing their market position and strategy in their industry,
- comparing price and performance of their offerings to the competitors.

Others may see some advantage in their accumulated assets. However these all are only the top of the competitive iceberg.

However, “executives need to look beyond the company’s products to the intellectual skills or management systems that actually create a maintainable competitive advantage” (Quinn, 1994). The real competitive advantage consists of combination of several factors: knowledge, skills, technologies, operating methods and information, which are found throughout the company in small “pockets”, sometimes hidden and quite often misunderstood, therefore not really appreciated (Greaver, 1999). Those valuable combinations, which could benefit the company, have to be carefully investigated in order to be discovered.

Smart companies compete for current core competencies that underlie the organization’s strategies, as well as for those core competencies, that will be necessary to gain future competitive advantage, that is seen with difficulty by competitors at present.

Since the days of Adam Smith, capitalist economists were stressing the benefits of specialization as key to productive exchange among economic agents (Dueening, 2005). Business specialization has been promoted for several decades. Company should be No.1 or 2 in well
defined business environment or it should get out of that business – was the message from scientists and many companies CEOs.

When a company outsources a process to the third party, whose core competence is related to that process, the buyer is expecting to get service enhancements that can be turned into competitive advantage. Existing Business to Business relations among firms allow one firm to focus on its core competencies and allow other firm to provide the first one with high quality and lower cost services, which are its core competence.

The idea of really focusing on core competencies, not only talking, did not seem important and strategic until some companies were engaged into this and showed they are actually able to perform better by outsourcing non-core processes. Early BPO adopters like IBM, American Express, AT&T, General Electric, were able to risk outsourcing non-core processes. Some of them experienced failure, but success was greater.

Even though it looks quite clear, that companies should focus on core, still there are many open questions:
- how to define the core competence as there are several opinions and statements regarding it definition;
- how complex is the task to identify company’s core competence;
- what is the difference between core competence and core process;
- what is the proposed structure of determining core process.

After reviewing scientific literature, it is possible to state, that there is a lack of unified opinion regarding the issues mentioned above.

The object of research – core competencies and core processes of the company in outsourcing context.

The main objective of this research – to make an overview of definitions of core competences, identify differences between core competences and core processes, propose a scheme for potential core processes identification.

The methods of the research are systemic, logic and comparable analysis.

Business process evaluation

Business process outsourcing (BPO) is defined simply as the movement of business processes from inside the organization to an external service provider (Duening, 2005; Brown, 2005; Robinson, 2005; Linder, 2004). Nowadays third-party providers offer services just like utilities. Those utilities providers can do a better job than company itself, because of the economy of scale or because what is being outsourced is an area of differentiation and the provider has better skills (Hallet, 2008).

The drive to identify core competencies moved in line with the growing popularity of outsourcing (Economist, 2008). Once a company started to build the strategic outsourcing plan and has a vision on how it can benefit from outsourcing, one important milestone in this road is to select outsourcing opportunities. It is worthwhile to mention, that strategic outsourcing plan has to be built with the context of business strategy, as otherwise it can take a company entirely to the wrong direction and allow to outsource not right functions and hurt the company (Boguslaskas, 2008). We would like to mention, that there is a confusion about the terms “core process” and “core competence” in the literature. Some authors equate those two by default and operate those terms as if core competence meant the same as core process, some talk only about core competences, some - only about core processes. Information presented below will prove this fact.

Before launching any outsourcing initiative, companies should carefully follow such decision sequence and include those actions into strategic outsourcing plan:
- Which processes should be outsourced?
- When should these processes be outsourced?
- Where should they be outsourced to?
- How should they be outsourced (Robinson, 2003)?

There should not be mistakes made in the first question, it is of essential importance. Wrong decisions in further steps of course will bring some harm to the company, but they will not be so damaging, as to give away one of the following: core process, strategic initiatives or processes, where according to M.Robinson there are no vendors with such expertise. (Robinson, 2003)

Analysing BPO opportunity means identifying core competencies and determining the most effective way to support high performance in these activities. There is a six-step-process proposed 6 steps process for analysing and selecting BPO opportunities:

1. Establish a BPO Analysis Team.
2. Conduct a current state analysis.
3. Identify core and non-core activities.
4. Identify BPO opportunities,
5. Model the BPO project.

According to Brown (2005), successful steps for evaluating and launching BPO begin from identifying core processes, eliminating them from the opportunities list and only then selecting from non-core activities which suite outsourcing.

The first task of any organization, which has interest in smartsourcing (other words outsourcing) is defining its core competencies. (Koulopoulos, 2006).

The expert of offshore outsourcing structures Vashistha writes, that when defining offshore criteria, organizations must weight if:
- the process is core competence,
- it is the function core to the company (Vashitsa, 2006).

After analysing the information, it is possible to conclude, that all authors, writing about any kind of outsourcing: global, offshore, BPO or smatsourcing, declare, that before selecting outsourcing opportunity, company must identify its core competencies and core processes. After this task is included into strategic outsourcing plan and completed, and the action goes forward and outsourcing decision will be limited to non-core processes for further evaluation.

An interesting fact should be mentioned: even though this concept was introduced long time ago and there were a lot of publicity and discussions dedicated to the subject, amazingly few individuals understand this concept well, that could apply it to the business, they are in. When asked to define company’s core competencies, most people’s
response is the name of product or service. Very few will reply with a sustained capability that contributes to success across products and services.

Taking into account the aspects mentioned above, there arises comes a natural question: what is core competence and how is it to identified?

**What is core competency?**

The phrase "core competency" was introduced by Prahalad and Hamel in a groundbreaking article in 1990 in *Harvard Business Review*. They wrote that a core competency is "communications, involvement and deep commitment working across organizational boundaries" (Prahalad, 1990).

In their original definition, core competences were “the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies” (Prahalad, 1990). The “fathers” of the core competence term suggested at least 3 items test, in order to define it:

1. It makes significant contribution to perceived customer benefits of the end product.
2. It is difficult for competitors to imitate.
3. It provides potential access to wide variety of markets (Prahalad, 1990).

Naturally since 1990, there were a lot of thoughts regarding core competence definition and various authors tried to propose something simpler and more understandable, but it is a doubtful if they succeeded and instead of being crisper, the problem has become more blurry:

- According Moore any behavior can be core, which can raise the stock price and everything else is the context (Moore, 2002).
- Kogut suggests, that core competencies are “those capabilities that permit the firm to make the best response to market opportunities” (Kogut, 2001).
- A core competency is best described as a set of skills and capabilities that create unique value in the market place. A core competency should provide long term differentiation of an organization if it is properly understood and articulated within the organization and to its partners (Koloupoulus, 2006).

A bit restated Prahalad and Hamel definitions are the following ones:

- Core competencies are the innovative combinations of knowledge, special skills, proprietary technologies, information and unique operating methods that provide the product or the service that customers value and want to buy (Greaver, 1999).
- A Core Competency is a deep proficiency that enables a company to deliver unique value to customers. It embodies an organization's collective learning, particularly of how to coordinate diverse production skills and integrate multiple technologies (Rigby, 2008).

Resource theory states, that there are four elements of a firm’s core competence:

1. Resource is valuable.
2. Resource is rare.
3. Resource is difficult to imitate.
4. Resource is difficult to substitute (Barney, 1991).

J. B. Quinn describes core competencies as:

- Skills or knowledge sets, not products or functions.
- Flexible, long-term platforms, capable of adaptation or evolution.
- Limited in number.
- Unique sources of leverage in value chain.
- Areas, where company can dominate.
- Elements important to customers in long run.
- Embedded in organization’s systems (Quinn, 1994).

Core competencies are defined in terms of their functional characteristics, i.e. what the effects caused by competence are, but the elements of competence and its relations are not defined. (Kersiene, 2005).

After reviewing the scientific literature, it looks, that all authors are talking about similar things, but in different words and from a bit different angles – thus there is no one unified definition, what exactly core competence is. Core competencies should be identified with two objectives in mind: to bring the greatest value to the end customer and to ensure the highest level of productivity for the company itself (Leonaviciute, 2007). Companies should work out for themselves, using the theory listed above, the most suitable methodology, how to identify core competence. In our view, resource theory would be the most understandable and reflecting the main features of core competence.

Duening states, that he presents simplified version of definition: “company’s core competence is the process or processes that front office and especially the sales and marketing team, emphasizes to customers” (Duening, 2005). This customer-centric conception should suggest way out from the endless debate about how to define the term.

However it makes things even more complicated, as the confusion arises around the term “core process”. Is core process the same concept as core competence or are they two different things? What are the relations and interactions among core competence, core process, products and strategies? The following sections will describe these issues in more details.

**Perception of companies’ core competencies**

Challenge often resides in getting company to understand its own core competencies. The idea to focus on core competence, logically should suggest that organization should operate as few non-revenue producing units as possible. In early days of a business, when everyone is doing whatever necessary for the business to succeed, it is possible to call everything core. However, when business grows, there are many things, which business does that are expensive, but not directly involved in revenue generation. Accounting, payroll, benefits administration, HR and other processes are all necessary for business to operate, but they are not tight to the revenue from direct activities. If a business truly focused only on its core competence it would not operate those units that do not directly affect serving customers and generating revenue.

Organizations have many competencies and capabilities, however only few of them are combined and integrated in such way, that they can be considered core competences. If the competencies do not create products or services that are exceptionally different, they are most probably not core. If
the competencies are easily imitated or belong to a few individuals who may leave the company, they are most probably not core.

Customers’ perceptions are crucial to understand the company’s core competencies. Core competencies are what set the organization’s products and services apart from the competitors’ similar offerings and companies may have more than one core competence. True core competencies are hard to define precisely and often they are discovered retrospectively (Coyne, 1997).

Core competence is not a product

Even though many businessmen may call some of their product or service “core”, it is not so.

It is not right to equate a core competence to a specific product or service, because it is really difficult to create something unique, as competitive forces in a free market will always offer alternatives to any single product or service.

In fact, if there is a need to chart the relationship of the core competence against products and services, they would be positioned as nearly opposites on a scale of velocity of change (Kolopoulos, 2006).

Products and services may frequently change in the company. Those products and services will be based on core competencies, i.e. on foundational aspects of an organization. The foundational aspects, which also include company’s culture and values, are not subject to sudden change.

Core competence is not a strategy

BPO is based on fundamental statement that organization should focus on what they do best and outsource other processes. It is critical to point out, that BPO is not any kind of technology system - it is a business strategy. It means the finding of a suitable partner, with whom it is possible to create bilateral cooperation (Bartkus, 2007).

Going further, it is important to understand core competence and business strategy relation. Strategy defines how organization defends, builds and transforms core competence over the time. Core competence should constitute the focus for corporate strategy (Prahalad 1996). Deciding how to do that transformation is a matter of scenario planning and forecasting – techniques practiced by upper management teams. When investigating core competencies it is important not to be involved into strategy discussions, when there is a need to clarify and articulate organization’s core competence.

Consultants offer a lot of examples of companies, which have experienced decline in market share because they have not focused their core competencies. They offer to engage in series of high level meetings, which involve scenario planning and forecasting the future in order to maintain and increase competitive advantage. Such meetings can be useful only for setting strategy, but they are not helpful for identifying core competence (Duening, 2005).

Industries change and require management to adjust its core competencies. Sound strategy involves understanding in which core competences to invest in order to maintain competitive advantage and when to acquire and develop different core competencies for setting up future competitive advantage.

Relationship between core competence and core process

Some authors mention core competence and state that it should not be outsourced and some are referring to core processes, which in no way should not be outsourced. This fact creates confusion: is it core competence or core process, which should not be outsourced? What is the difference between these two?

Core competence and core processes are two different concepts and should not be mixed together. They are closely related. In order to be named as core process, it should use core competence.

Mol is challenging some of fundamentals Quinn’s statements and his critics bring some clearance and crisper understanding of differences between core competence and activity (process), as well as distinction between core and non-core.

- **Core competence is not an activity.**

According to Mol, Quinn’s approach builds the notion, which many scholars took forward, that are core and non core activities and that non core activities do not use a company’s core competences whereas core activities do (Mol, 2007). Core competences actually are based knowledge and do not equate to activities, which company undertakes. Therefore core competencies and activities reside at different levels of analysis. Since it is activities that companies can outsource, then outsourcing also operates at a different level from core competencies. Company’s definition of its core competencies should not have straightforward implications for its outsourcing policy or its decision to outsource a given activity.

- **There is no clear distinction between core and non core.**

Quinn (1994) wrote, that it is easy to identify core from non-core. Practitioners find that in real world the distinction between core and non core activities is hard to draw. Customers do not care whether firm believes an activity to be core or non core. Core and non core are therefore probably best seen as two ends of a continuum where the majority of activities lay somewhere in between those extremes.

Indeed, the question of what is core to an organization has come up throughout the history of outsourcing. Nowadays we more and more trust on third parties. Big pharmaceutical companies always have been among the world’s largest spenders on research and development, as R&D was treated as core process to their successful activity. Nowadays those companies have turned to the third parties for about 40 to 60 per cent of their R&D (Hallet, 2008). This fact also supports the opinion, that core competence is not an activity as pharmaceutical companies must have something else, what they treat as core competence and what does not get into danger to be damaged by competitors if R&D is outsourced. On the other hand, it looks like R&D earlier being a core process, might have been downgraded into key process and therefore possible to outsource.

All the information mentioned in the article, proposes the conclusion, that core competence is a set of knowledge,
skills, collective learning and other attributes, that help to build core process and maintain it as a core process.

Core process is the process, which front office emphases to the customers and it believes company does better than competitors. Core processes are the fundamental activities or group of activities that are so critical to an organization's success that failure to perform them will result in deterioration of the organization (Momentum, 2008).

_core processes_ are built by using core competences.

Core processes should not be outsourced, as it is what keeps company alive and competitive. It is not possible to outsource core competence as such – there should not be discussions of affordability - they are simply out of scope.

Identifying core competences does not provide a methodology for decision whether to outsource or not.

**Ways to get core competencies**

There are several proposals, how company can acquire core competencies. A short summarized list as an example is presented below (Greaver, 1999; Rigby, 2008):

- isolate its key abilities and hone them into organization-wide strengths;
- compare itself with other companies with the same skills, to ensure that it is developing unique capabilities;
- develop the understanding of what capabilities its customers truly value, and invest accordingly to develop and sustain valued strengths;
- create an organizational road map that sets goals for competence building;
- pursue alliances, acquisitions and licensing arrangements that will further build the organization's strengths in core areas;
- encourage communication and involvement in core capability development across the organization;
- preserve core strengths even as management expands and redefines the business;
- hire talented people,
- renting talented people (consultants, academics, etc.)

However, if the company can not identify any of its core competences, it is a sign, that it is time to close the business before bankruptcy will do that. Then it is time to start something new by clearly identifying, what the core competence in new activity are. The proposals mentioned above can help to support, develop and transform the existing core competence.

It is worthwhile to stress, that outsourcing is not a substitute for acquiring or developing core competences. It helps to free up resources, which can concentrate on core competence development and work on core processes.

**Further allocation of non-core**

When organization’s core processes are identified, non-core should also be classified. Some of these processes will be more crucial in their support of the core process than others.

Most of the remaining capabilities are important to business’s survival, but not to its ultimate success. These are either essential or supporting capabilities (Greaver, 1999).

Suggested split of non-core processes for the purposes of determining BPO possibilities could be:

1. critical, 2. key, 3. supporting (Duennig, 2005; Vashistha, 2006).

These processes are candidates for outsourcing and should be evaluated further and considered as an outsourcing option. There are separate methodics for further evaluation, one of interesting ones is using financial impact and relation to core competence approach (Kannan, 2008).

**Scheme of identifying potential core processes**

There are many opinions, if it is complicated or rather easy to determine organization’s core processes. Investigation in the company should discover the combinations of knowledge, skills, technologies, operating methods, and information that are embedded in successful products or services. Then an analysis should be done to see how these are integrated to develop a core competency.

Generally, the identification of core competencies should be beyond the scope of an outsourcing initiative. Senior management should provide this information directly or indirectly by putting certain core competency areas of limits to the outsourcing initiative.

Afterwards company should evaluate core processes. We have prepared a scheme, which summarises information presented in the article, that will help company to make some hints on evaluating process. Final decision if it is core or non-core process depends on the specifics of each company and should be made separately for each case of the analysis.

There should’t be more than five core processes in the company.

![Diagram of identifying potential core processes](image-url)

*Figure 1. Proposed scheme for the identification of potential core processes.*
Conclusions

- The unique internal skills and knowledge sets that define an organization’s competitive advantage, which is seen by its customers – are core competences. Core competencies are usually limited in number and are embodied in the organization’s products and services. They are not actual products or services.
- Core competencies help to build core processes and maintain them as core processes.
- Outsourcing is not a substitute for acquiring and developing core competencies.
- It is not possible to outsource core competence as such. There should not even be discussions about affordability. Core competence is out of outsourcing scope.
- Core processes should not be outsourced, as it is what keeps company alive and competitive.

References

Lygina savo ir konkurentų pozicijas ir strategiją rinkoje, 
Lygina savo sūluomų prekių ir paslaugų kainas bei teikiamą naudą su konkurentų produktais.

Tikrai konkurencinę pranašumą sudaro kelii veiksniai derinys. Tai žinios, įgūdžiai, technologijos, darbo metodai ir informacija, kurie randami visos organizacijos mažose "kišenėse". Kartais šie veiksniai paslepti ir gana dažnai neteisingai suprantami, todėl nevertinami. Tam, kad šie vertingi deriniai būtų išsiskirti ir būtų naudingi, juos reikia kruopščiai iššiukioti.

Labai svarbu suvokti, kad kurių funkcijos ir procesai niekada neturėtų būti nuomojami. Norint gauti didžiausių vertingų derinių naudą, būtina tiksliai susijungti su struktūra ir paprastai – 81 – nuomos, bendrovės procesai kompetencijai išskirti esminius ir neesminius procesus. Šis įtvirtinimas yra būtinas prieš pradėjant bendrovių nuomos planus ir turi viziją tokią. Nors ir atrodo papakankai aišku, kad įmonės turėtų didžiausią dėmesį skirti pagrindinėi veiklai, vis dėlto yra daug atvirų klausimų:
- kaip iš tikrų apibrėžti esminę kompetenciją, kadangi tai yra teikianti esminę kompetenciją, rezultatui atgaivinti savo verslo procesus ir nuomos planus? Jei kandidatų kompetencijų nustatymas yra paprastas ar sudetingas uždavinius?
- ar yra skirtumas tarp esminio kompetencijos ir esminio procesų?
- kokia yra sūluoma struktūra norint nustatyti esminius procesus.


Išvados: 

- Esminės kompetencijos yra atsirandusios įvairių įmonių veiksniai, kurie apibrėžia organizacijos konkurencinį pranašumą, vertinant įmonių konkurencinę ilgalaikę įmonių veikimą. Įmonių esminių kompetencijų paprastai yra nėra. Jos sukuria įvairias įmonių veiklos mokesčius, tačiau ne visų įmonių veiklos mokesčius. Įmonių esminių kompetencijų paprastai yra nėra. Jos sukuria įvairias įmonių veiklos mokesčius.