Resources, Competence, Core Competence

Competences

- Competences are attributes like skills, knowledge, technology and relationships that are common among the competitors in an industry.
- Competences are more often developed internally but may also be acquired externally or by collaboration with suppliers, distributors or customers.
- Competences are distinguished from core competences by the fact that they do not produce superior performance and by the fact that they are not distinctive when compared to the competences possessed by other companies in the industry.
- On the other hand, competences are essential for survival in a particular line of business.
- Competences also have the potential to be developed into core competences.

Core competences are distinguished from competences in several ways:

- they are only possessed by those companies whose performance is superior to the industry average;
- they are unique to the company;
- they are more complex;
- they are difficult to emulate (copy);
- they relate to fulfilling customer needs;
- they add greater value than ‘general’ competences;
- they are often based on distinctive relationships with customers, distributors and suppliers;
- they are based upon superior organizational skills and knowledge.

Existing Competence can be evaluated for:

- **Customer focus** – does it adequately focus on customer needs?
- **Uniqueness** – can it be imitated by competitors as if so, how easily?
- **Flexibility** – can it be easily adapted if market or industry conditions change?
- **Contribution to value** – to what extent does it add value to the product or service?
- **Sustainability** – how long can its superiority be sustained over time?

Core Competence and Distinctive Capability

- Sources of Distinctive Capability (Kay, 1993):
  - **Architecture** – A network of relationships within or around the organization. The relationships may be among employees (internal architecture), with suppliers and customers (external architecture) or among a group of organizations engaged in related activities (networks). For example, the strategic alliances that have been built up by the major international airlines in recent years are examples of using networks to strengthen the competitive position of individual airlines through shared activities and extending geographical scope.

  - **Reputation** – In service markets reputation is an extremely important contributor to consumer choice of product, but given the intangibility of the product, reputation is usually built up slowly and at some cost as consumers gain experience. Given the high value and public profile of travel products, reputations can easily be damaged, for example through disaster. A coach or aeroplane crash, a ferry sinking or a hotel fire quickly erodes the reputation of the affected organization.

- **Strategic assets** – The strength of market position or dominance of a market is often based upon the possession of strategic assets. They can be of three types. First, an organization may benefit from a monopoly position in a market, secondly, an organization may have already incurred the costs of supplying a market which inhibits the ability of new entrants to compete effectively, and thirdly, some companies may benefit from the possession of licences or regulation that prevents competition.
  - For example, the dominant position of major international airlines at their 'hub' airports (such as Lufthansa at Frankfurt, United at Chicago and American Airlines at Dallas/ Fort Worth) is often the result of costs expended over many years and local regulatory
  - regimes that have allocated take-off and landing slots to these airlines over the years.

- **Innovation** – Through innovation companies are often capable of providing a distinctive product and/or reducing costs. However, innovations can often be copied (particularly in service industries) and the additional returns are often not forthcoming for the innovating company. For example, British Airways was the world's first airline to introduce flat beds for some of its business class passengers, but other airlines quickly followed its lead.

Aims of an analysis of resources, competences and core competences (distinctive capabilities)

- understand the nature and sources of particular core competences;
- identify the need for and methods of adaptation of existing core competences;
- identify the need for new core competence building;
- identify potential sources of core competence based on resources and competences;
- ensure that core competences remain focused on customer needs.

Key Concept

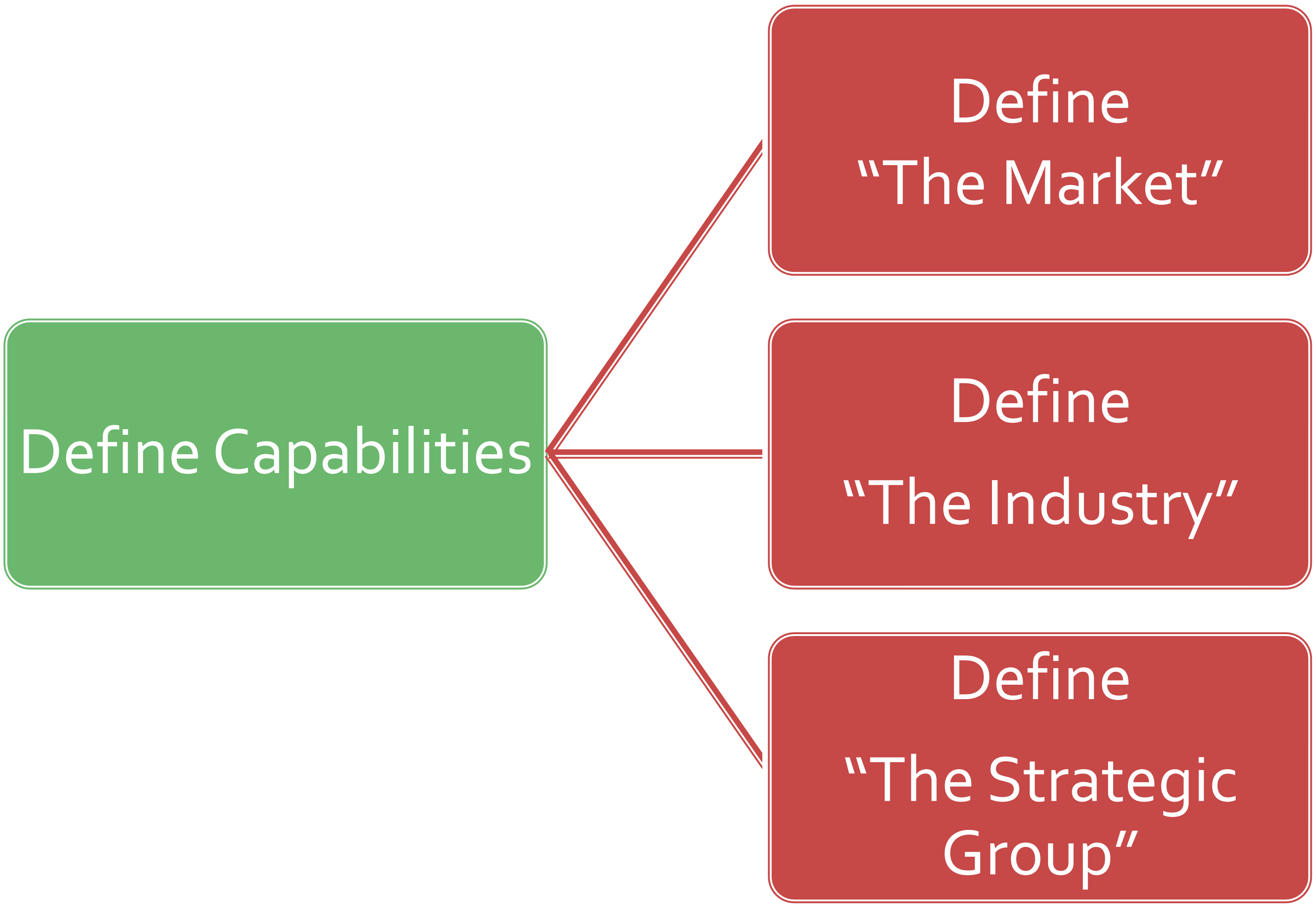
- **Competence leveraging**
  - Competence leveraging refers to the ability of a business to exploit its core competences in new markets, thus meeting new customer needs. It can also refer to the ability of the business to modify and improve existing core competences.
- **Competence building**
  - Competence building takes place when the business builds new core competences, based upon its resources and competences. It is often necessary to build new competences alongside existing ones when entering new markets as it is unlikely that existing competences will fully meet new customer needs.

Distinctive Capability – Competitive Advantage

- Distinctive capability becomes a competitive advantage when it is applied in a **relevant market**.
  - Each distinctive capability will have a market (or group of markets) in which the organization can achieve a competitive advantage.

- Organizations can enjoy a competitive advantage relative to:
  - other suppliers in the same market;
  - other firms in the same industry; or,
  - other competitors in the same strategic grouping.

How to gain competitive advantage?



Analysis of Value Adding Activities

- Value chain analysis (Porter, 1985) seeks to provide an understanding of how much value an organization's activities add to its products and services compared to the costs of the resources used in their production. Although it has been applied widely in the manufacturing sector, several writers have applied the model successfully to a service setting. Poon (1993), for example, adapted the model to the travel and tourism industry.

- Value chain analysis helps managers to understand how effectively and efficiently the activities of their organization are configured and coordinated. The acid test is how much value is added in the process of turning inputs into the outputs, which are products in the form of goods and services. Value is measured in terms of the price that customers are willing to pay for the product.

Value added can be increased in two ways.

1

- **changing customer perceptions** of the product so that they are willing to pay a higher price for a product than for similar products produced by other businesses;

2

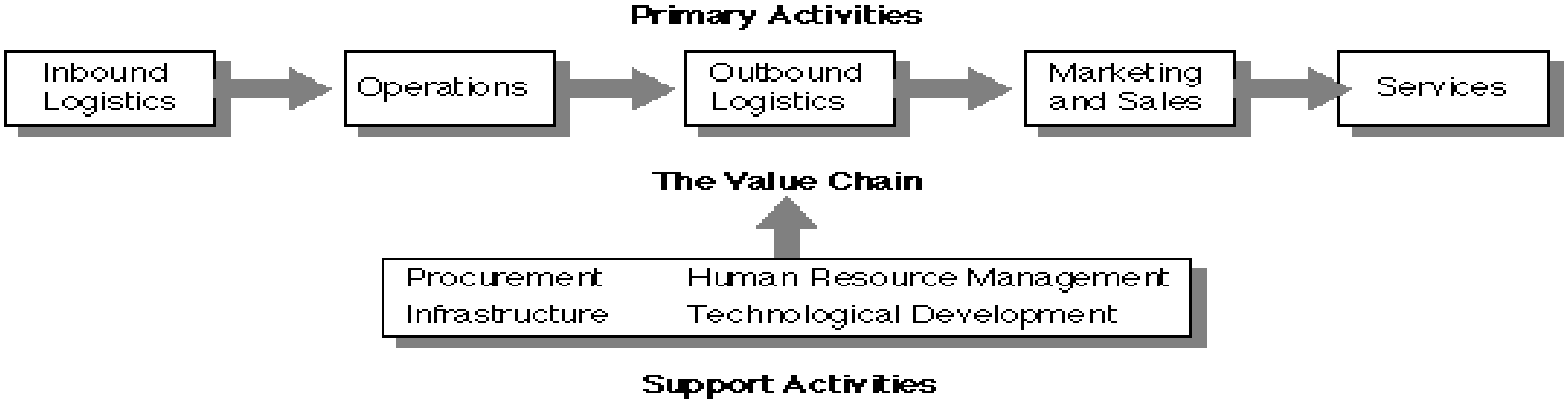
- **reducing unit costs** of production below those of competitors.

Value Chain

- The idea of the value chain is based on the process view of organisations, the idea of seeing a manufacturing (or service) organisation as a system, made up of subsystems each with inputs, transformation processes and outputs.

- Inputs, transformation processes, and outputs involve the acquisition and consumption of resources - money, labour, materials, equipment, buildings, land, administration and management. How value chain activities are carried out determines costs and affects profits.

- Most organisations engage in hundreds, even thousands, of activities in the process of converting inputs to outputs. These activities can be classified generally as either primary or support activities that all businesses must undertake in some form.



Value Chain

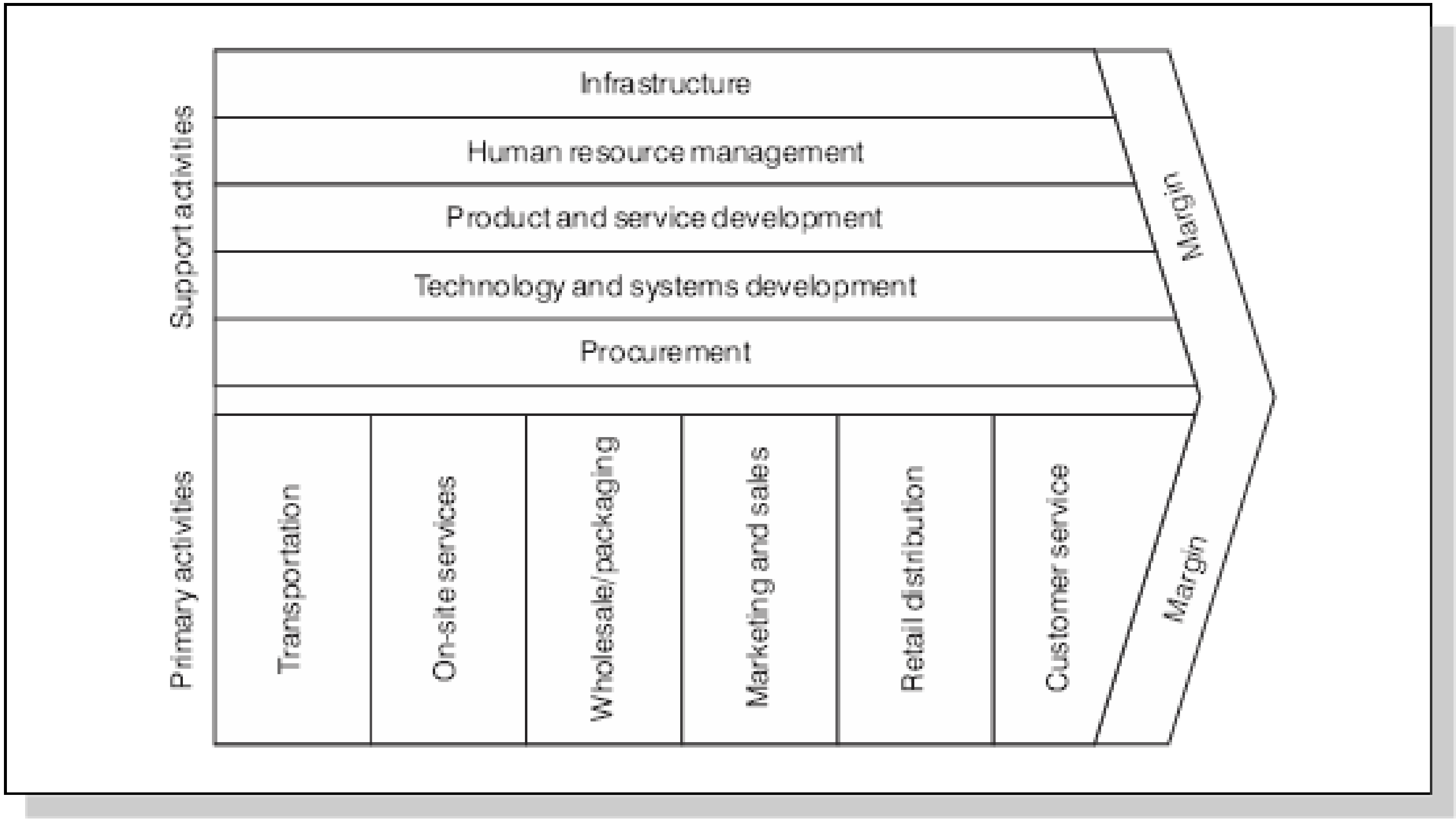


Figure 3.3 The value chain (after Poon, 1993, adapted from Porter 1985)

Activity	Description	Examples of how value might be added
Transportation services	Transportation to and from the destination and at the destination	Information provision Scheduling Gate operations Ticketing Baggage handling Passenger management In flight/on board services Reservations Route and yield management Equipment age and specification Timekeeping
Services on site	Services delivered to visitors at their destination	Repair and maintenance of accommodation Age and specification of accommodation Entertainment Added services provided, e.g. car hire, excursions Accommodation locations Quality of company representatives
Wholesaling and packaging	Assembling or 'packaging' the product or service	Commission negotiations Product development Pricing Assembling, integrating and coordinating aspects of the product
Retail distribution	Distributing the product to the market	Retail locations Choice of distribution channels Commission levels Cost of sales Client database management Customer retention levels
Marketing and sales	Making the product available to the market and persuading people to buy.	Brochure production and distribution Advertising Public relations Sales force management Frequent flyer programmes Brochure display Point of sale materials
Customer service	Installation and after sales support.	Customer complaint management Management and monitoring customer satisfaction Speed of responsiveness Client advice

Activity	Description	Examples of how value might be added
Procurement	Purchasing, leasing or renting of services and equipment	Lower prices Better contract terms
Technology and systems development	Developing and implementing technology and systems in support of primary activities	Computer reservation systems Internet applications 'Real-time' sales reports Yield management applications
Products and services development	Developing new products, services and market opportunities	New market segments New products New destinations Developing partnerships and alliances
Human resource management	Recruitment, selection, training, reward and motivation	Quality of employees and managers Employee empowerment Team working Level of training Outsourcing
Infrastructure	General management, financial control and accounting, planning, legal affairs, quality control	Speed and quality of decision making Costs of providing infrastructure Coherent and consistent standards

- Analysis of value adding activities helps to identify where **the most value** is added and where there is potential to **add greater value** by changing the way in which activities are configured and by improving the way in which they are coordinated.

- It is important to note that an organization's value chain is not analysed in isolation but that it is considered in conjunction with **its external linkages to suppliers, distributors and customers**.

Internal & External Linkages

Internal linkages		External linkages	
Type of activity	**Example**	**Type of activity**	**Example**
Primary–primary	Interdepartmental coordination	Links with suppliers – backward linkages (upstream)	Tour operator linking with a hotel group
Primary–support	Computer base sales management systems	Links with distributors – forward linkages (downstream)	Tour operator securing 'racking agreement' with a travel agency group for its brochures
Support–support	Training for new technologies	Links with other companies at same stage of operations	Airlines collaborating in some of their activities through the formation of strategic alliances

Table 3.3 Classification of internal and external linkages

The Service-Profit Chain

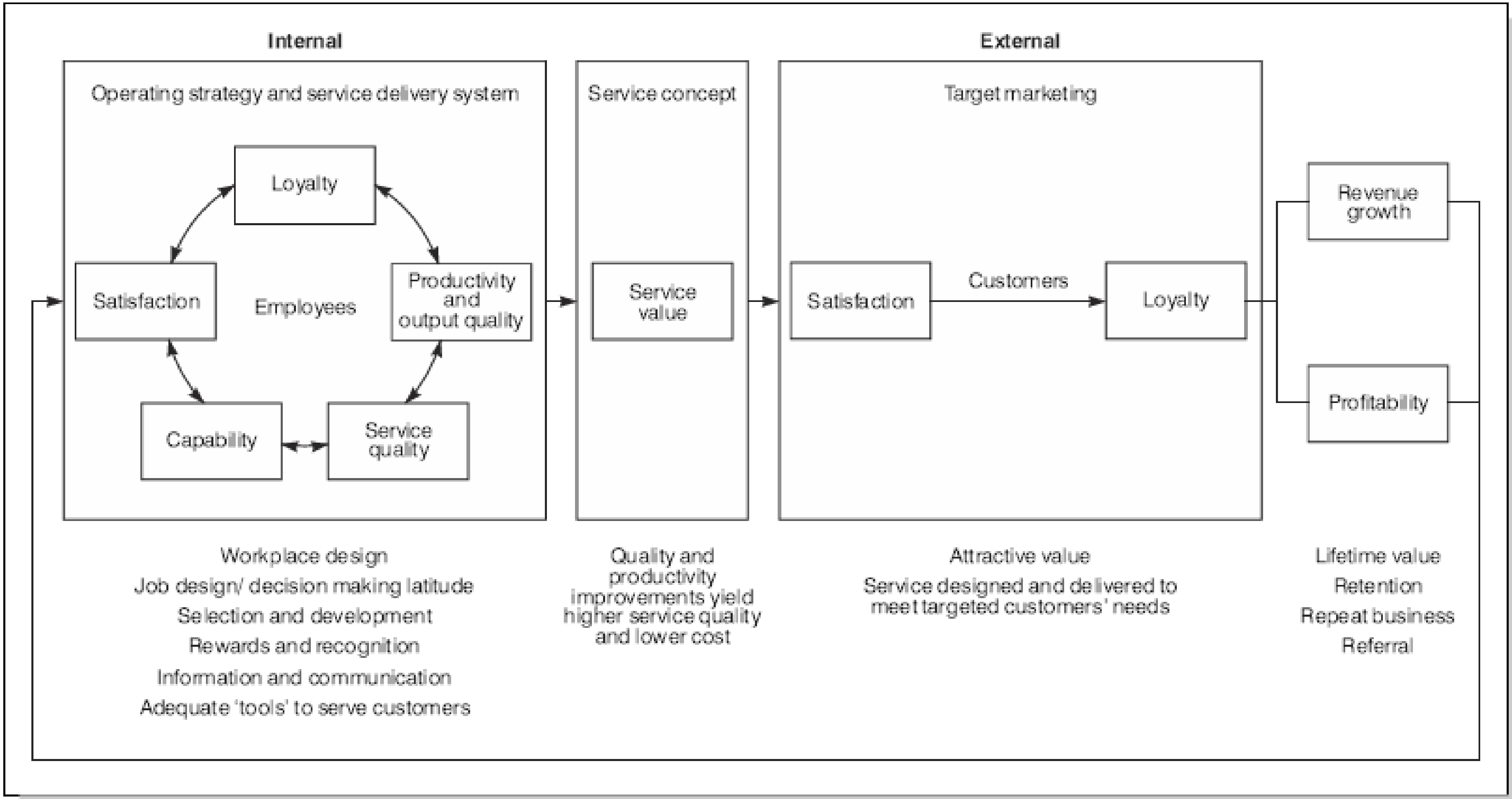


Figure 3.4 The service profit chain (adapted from Heskett *et al.*, 1997)

Strategic Choice

Corporate level strategy

Strategy at this level is concerned with the overall purpose and scope of an organization. This might include the broad determination of which business areas or geographical areas the organization might want to be involved with. Clearly this area of strategic choice is thus closely involved with the organization's mission and its manifestation in the form of a mission statement. Thus in the 1990s Bass plc (once the UK's largest brewer and bar operator), sold its brewing interests and most of its pubs. The proceeds raised from these disposals were used to invest in hotels primarily through the purchase of the Holiday Inn and Inter Continental chains. This was clearly a corporate level decision to entirely refocus the business, which culminated in 2001 with the renaming of the company as Six Continents plc, recognition that the company had been transmogrified from a largely domestic brewer into a global hotel operating company.

Business level strategy

- How to compete successfully in certain markets.
  - How can advantage over competitors be achieved?
  - Which products or services should be developed in which markets?
  - What methods can be used to achieve competitive advantage and to develop products and services?

Consideration on Business Level Strategy

- The bases of competition – Competitive strategy.
- The direction of development – Strategic direction.
- The methods of development – Strategic methods.

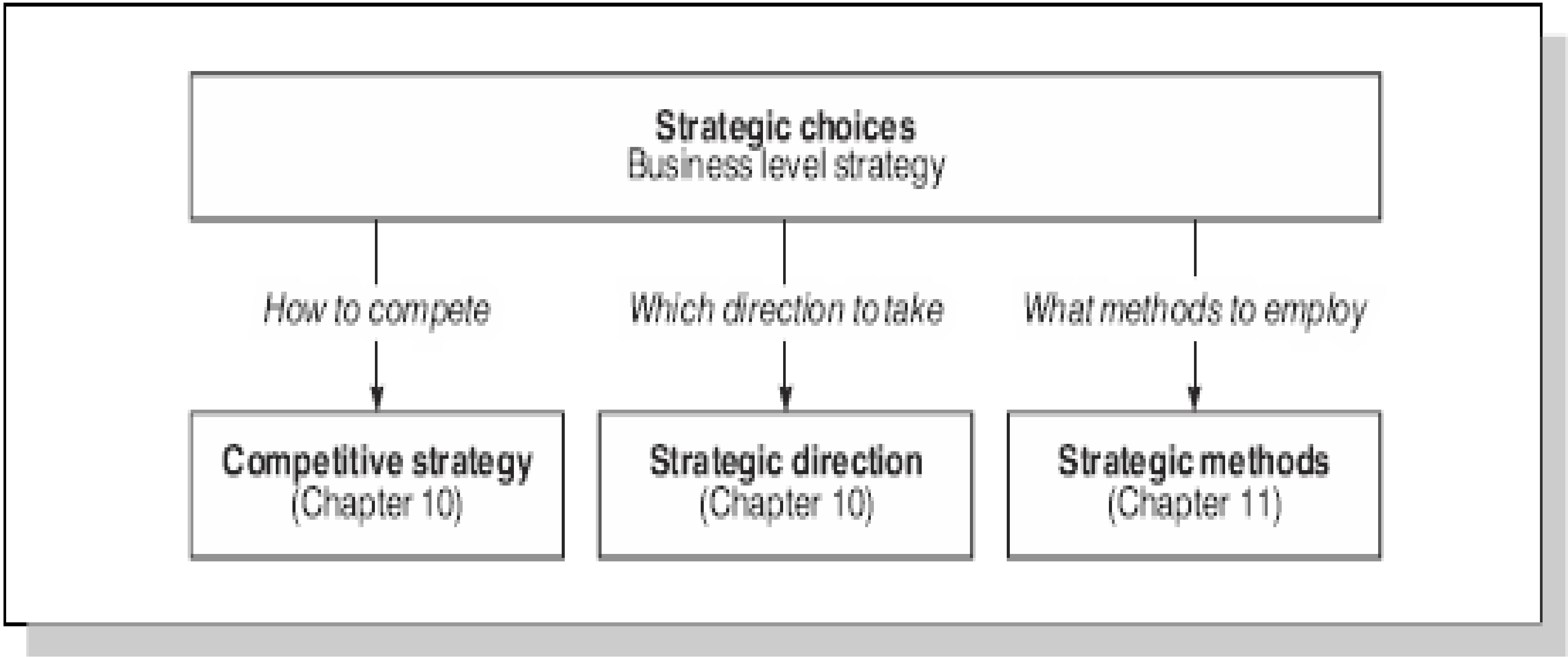


Figure 1 The three aspects of business level strategy

Operational level strategy

- Strategy at this level is concerned with the more detailed implementation issues relating to how the proposed corporate and business level strategies can successfully be put into practice.

- The concern here is how the changes arising from the adoption of corporate and business level strategies can be managed effectively and on the detailed decisions that have to be made in each area of the organization to implement the higher order decisions.