The Application of Core Competencies to Growth Management

Core Competencies form the essential foundation to grow beyond your core market and increase profits

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Introduction

If you want to develop growth opportunities for your organization, an effective methodology is to first identify, then deploy, and continuously improve the firm’s Core Competencies.

Much like a virtuoso violinist who has developed her competency and technique by mastering one difficult piece after another, the virtuoso company develops its Core Competencies and leverages them by mastering markets in which these Core Competencies can deliver exceptional value to the customers.

Furthermore, the CEO’s of would-be virtuoso companies should put serious effort into understanding the source of their excellence — their Core Competencies — before venturing into other markets or growing the core.

The premise for the methodology is simple enough: if a company can define and validate its Core Competencies, then all the resources and passion of the can be channeled toward excelling in these areas — which are the source of the unique value the company wants to create. In addition, once a company excels in a few selected competencies, this expertise can be used to grow beyond the current market.

Modern strategic analysis has focused on identifying and leveraging Core Competencies for two key reasons:

- By establishing Core Competencies as a basis for strategic selection, firms have a stable platform from which to choose high-speed, competitive moves in their core markets.
- When Core Competencies are identified — ones that are of value outside a firm’s core markets — they become the central element in economically viable growth strategies.

What is a Core Competency?

One definition states that a Core Competency is the collective learning of the organization, combined
with clean execution (processes and projects), which enables delivering exceptional customer value.

Another, perhaps more practical, definition lists a set of criteria:

The few things you do that:

- Contribute to the high value of the company’s end product
- Your customers find exceptionally valuable
- You do better than your competitors
- Your competitors find difficult to imitate
- You would never “outsource” to anyone
- Are transferable to other industries

The above criteria should be used for illustrative purposes only. The actual criteria for your company will have different items in a different order of priority. Your criteria must be carefully defined to fit your company, culture and value-add and most importantly your business objectives.

**An example: One company’s criteria to define its Core Competencies**

One of our customers settled on their definition of Core Competency using five criteria. Usually we recommend that the list of competencies should be limited to three or four, but in their case it was appropriate.

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**What You Do is Not Your Core Competency**

In our experience, one trap that companies fall into is confusing the activities associated with what they do with Core Competencies. Generally this is due to the lack of a robust process, one that forces the right conversations. When these conversations are hurried or not taken seriously, there is a risk that the list of competencies may be flawed.

For example, let’s say that a company (Acme) manufactures air conditioners. It is tempting to conclude that the competency is air conditioning. The manufacture of air conditioners is what the company “does”. But, if you apply the criteria shown on page 3, it becomes obvious that the competency lies somewhere else. Perhaps is the ability to understand and design solutions to manage temperature in differing environments. Another possibility might be the ability to understand and manage environmentally friendly gases.

Note that in the example above, we phrase the Core Competency as “The Ability to......” This terminology helps separate a skill from a competency.

Finally, customers are the ultimate judges of your competencies. Part of the validation process includes interviewing your customers as to what they find particularly valuable in your offering.
Here’s their list.

Our Core Competency must:

- Be applicable to other markets beyond “Our Widgets.”
- Provide [a source of] differentiation that customers find exceptionally valuable.
- Allow “Acme” the opportunity to be the best in the world.
- Not be easy to imitate.
- Be sustainable within the culture of our organization.

The above example illustrates the critical criteria the executive team used to evaluate and prioritize all the possible core competencies they had identified.

Above all, Core Competencies are important only if they:

- Contribute significantly to the value of your end product
- Are rare
- Are difficult to imitate

**Notes on Core Competencies**

Competencies should be expressed by a lead-in phrase: “the ability to...” or something similar. It is important to look at it this way, because an area your company may consider a strength (such as “high market share”) may not be supported by any Core Competency.

In our experience, the competencies that

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1 Assuming that “value” is all in the mind of the target customers and beyond technical specs to include your entire offering

**Examples of Core Competencies**

3M has expanded into multiple markets thanks to their competencies in the development of substrates, coatings, and adhesive; these competencies support, and remain at the center of, their competitive advantage.

One of Honda’s visible Core Competencies is the design and manufacture of efficient small engines. Combined with a less visible competency in “dealer management,” Honda has systematically diversified into markets where efficient engines can significantly contribute to the value delivered to customers, e.g., lawn mowers, outboard motors, motorcycles, all-terrain vehicles, etc.

**Wal-Mart**, voted in 2003 as Most Admired Company by Fortune Magazine, has continuously expanded from its humble origins into the $240 billion behemoth it is today. They did it by developing the few Core Competencies that contribute the most to delivering Wal-Mart’s value proposition: quality goods at everyday low prices with a smile. To deliver on this promise, Wal-Mart has made the management of inventory the centerpiece of its system. This has led them to pioneer and continuously improve several logistics techniques (part of their Core Competencies). One of these, called “cross-docking,” reduces significantly their cost of sales compared to the industry average and allows them to deliver on their promise.

**Nike** is not a manufacturer of apparel nor shoes. Their strengths lies in three areas. Design, supply chain management and promotion and they have used them to expand from manufacturing a single type of shoe to becoming a world leader in sports
executives believed at the start of the process were not the same after the due diligence was conducted.

Competencies can be found in three key areas: **Technology** (innovation), **Operations** (process and projects) and **Customer Relationships** (customer centricity)

Your Core Competencies must always be defined from the perspective of your customers. Your perception of your competencies is just a starting point; as your analysis progresses, you must consider the view from your customer’s perspective — especially “future customers” i.e. those intended market segments where you will focus your growth.

**The process for identifying and using Core Competencies**

Identifying Core Competencies is a proven methodology to help manage profitable growth. Many studies have corroborated this methodology — specifically, that Core Competencies help a company leverage its expertise to identify and exploit growth opportunities.

The fundamental premise of the Core Competencies approach asserts that if a company knows what is truly excellent about itself, that knowledge can be leveraged to grow within existing markets — and beyond. However, there are risks to this approach. For example, what if the wrong competency is identified? What if the new customers do not value the identified competency?

Another risk is confusing “expertise” with core competency, whereby the expertise is in something you do well but is not valued by the customer — it is not related to customer value.

Mitigating this risk requires a more robust methodology. We embrace a “belt-and-suspenders” approach, which consists of a series of steps:

- Identify and capture potential competencies. This is a qualitative, facilitated process to elicit candidates.
- Prioritize the list of candidates competencies
- Validate through quantitative research.
- Further Validate through interviews with critical stakeholders, for example Wall Street analysts, major customers, industry experts, light house customers, your board of directors, etc.
- Manage risk through a robust Risk Management Plan.
- Finalize the list of competencies

Finally, once the competencies have been identified, validated and confirmed, the company can proceed to develop its growth strategies; e.g., identifying other markets that value those competencies.

*(A related process involves identifying the competencies that are lacking — i.e., those the company does not currently have but needs in order to grow.)*

**The method is not the prize**

Our suggestion is to not allow the methodology to become the focal point of your efforts. It is very tempting to place all your emphasis on the process and miss the value the effort must bring. Any process you employ exists only to enable a methodical approach to solving a problem. If the focus becomes the process, the output is likely to be compromised.

Identifying your company’s Core Competencies is not a trivial effort. Consider the risk of basing your growth strategies on a wrong understanding of your competencies. Rigor and tenacity are required in order to manage this risk. Agreeing on some Core Competencies after a two-hour session will change
nothing, much as the virtuoso will not improve after just a short rehearsal.

**Risks concerning Core Competencies efforts**

There are a number of risks associated with Core Competencies, which must be managed for the methodology to yield positive results.

Risk is defined as items that can become a serious obstacle to successfully completing the effort and subsequent utilization of the competencies for managing profitable growth. Risks may include some of the following:

- **Delegating the process down the organization** may result in a set of tactics that are not competencies. Delegation may also send a message that the process is not important enough. While it is something many people in the organization should be involved in, it is **not a process the management team can delegate**; rather, it is a process the entire management team must participate. In our experience, this is the number one cause of defects or failure.

  Ensure that the entire management team is committed to visibly support the process from start to end.

- **Underestimating the discipline required** to identify and validate your Core Competencies results in doubtful competencies. Lack of commitment to the **rigor of the process** may cause a complete stop or failure.

**How Important are Core Competencies?**

Several best-selling books have been written that reflect the power of the Core Competency and attest to the criticality of the concept. While these books do not necessarily call attention to Core Competencies, the focus is on identifying what your company does best and then using it to create profitable growth and competitive stamina:

- **Competing for the Future** by Gary Hamel and C. K. Prahalad
- **From Good to Great** by Jim Collins,
- **Discipline of Market Leaders** by Michael Treacy and Fred Wiersema
- **The Virtual Corporation** by William H. Davidow.
- **Blue Ocean Strategy** by W. Chan Kim and Renee Mauborgne

The above list is not all-inclusive of all books published on the topic of Core Competencies. It is intended to show the attention that CC’s have received from noted authors.

For example, a simple conversation about the topic is woefully insufficient, and we do not consider that a robust process. **Formal and facilitated meetings must take place**, ample time for discussion and dialog should be allowed.

- **Not following the process to completion** — e.g., not gathering enough data, missing part of the analysis, not doing the validation, or missing an important competency. Not applying the
competencies for managing profitable growth is a frequent failure. Obtaining and validating the competencies is but the first step. The value comes from the rigorous application of the competencies to create the strategies and programs to ensure growth.

- **Not allowing sufficient time to do a thorough job.** As a rule-of-thumb, the process may take from three calendar months up to a full calendar year due to the need for both, qualitative and quantitative validation. We suggest that you plan well in advance to ensure ample time to do it right the first time, failure should not be an option.

Click here for additional risks — Appendix A

**Transform your Core Competencies into growth opportunities**

The use of Core Competencies to create profitable growth must be a deliberate decision — a clear strategic initiative\(^2\) that the executive team will support for several years. Generally, a strategic initiative spans several years before achievement, and has several programs with their own respective projects.

**Opportunities**

Once competencies have been prioritized and validated, your company can proceed to use them to your advantage. For example:

- Developing competitive moves to protect existing markets.
- Identifying adjacent markets (Product and market extensions)

\(^2\) Strategic initiatives are the documented programs and projects that — when brought to fruition — ensure the achievement of the company’s strategic imperatives.

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- Identifying new markets beyond your existing one (Diversification).
- Using Core Competencies to grow within your current markets.
- Acquiring any competencies that, although needed for success, are not yet part of your company.

**Conclusion**

The use of Core Competencies is a well established and proven method to define growth opportunities, as it provides a clear framework to make business decisions. Further, utilizing Core Competencies goes a long ways toward reducing the impact of uncertainty on growth initiatives.

Next time someone in your team says “We must grow beyond the core” Think about applying the Core Competency methods.

**Participate in the Dialog**

Click here if you have questions, comments or suggestions. The author welcomes your participation in this important topic.

**Critical Questions**

- Does your R&D team develop new technology based on your Core Competencies?
- Do you know the Core Competencies of your competitors?
- Do you create competitive strategies based on the competencies you possess that are the most difficult to imitate?
- Do you know which of your competencies your customers value above all others?
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About Rapidinnovation

Eight of the many critical questions we have helped answer for our customers:

1. How can we get closer to our customers in order to create more profitable products, beat our competitors and delight our customers?

2. How do we “price for value” to maximize profits and please our customers?

3. How can we optimize our R&D investments and execute the best roadmap to maximize profits?

4. How do we grow beyond our core and manage the risks?

5. How can we accelerate time-to-market and shorten time-to-profit?

6. How can we make Agile work for us?

7. How do we segment our markets to consistently optimize profits and ensure growth?

8. How do we improve the financial skills of the Engineering and Product Managers to obtain better business cases and overall financial performance?

We have been serving the high-technology community around the world for the last 17 years. Our ability to concentrate on high technology has given us a unique insight into the dynamics of the fastest-moving market around. Every one of our Business Consultants is a seasoned veteran of corporate life in high-tech companies. All have engineering degrees with advanced degrees in business plus years of experience helping technology companies achieve their business goals — credentials that are brought to bear to solve our customers’ challenges.

We work with our customers by focusing on the high-leverage areas of the company: R&D and Marketing where we collaborate, train, coach and facilitate every aspect of product development, innovation, and profitability. We also work with Senior Staff to develop measurable growth management strategies and then help in the clear execution.

Our list of satisfied customers includes some of the leading global technology companies.
Additional risks that may impede a fruitful process

- **The likelihood of focusing on a limited area of the company** obscures potential competencies in other areas of the company, thus resulting in missed opportunities for growth.

  Competencies may occur in three areas: Technology, Operations and Customer Relationships. They should be an intricate blend that is difficult for competitors to imitate, or perhaps to even understand. For example, 3M’s Core Competency in managing innovation is not easy to document; nevertheless, people in the company know what to do to keep it going.

  **Invite a cross section of representatives from across the company to be part of the discovery process.**

- **The probability of being too internally focused** by not involving other key external stakeholders in the process — results in limiting additional competencies that are obscured by internal dynamics.

  Obtaining the views of customers, the investment community and the employees at large, as well as other external sources, improves the quality and validity of the competencies. Widening the focus helps avoid identifying false or obsolete competencies. For example, your company might have had an expertise in something in the past, but others have caught up on this Core Competency and it is no longer unique.

  **Conduct a second round of discovery with representatives from outside your company.**

- **The likelihood of focusing only on the technical Core Competencies** keeps executives from other valuable categories of competencies.

  Technology organizations have a tendency to focus on the technical capabilities of the organization as the only dimension of “value.” It takes a considerable set of competencies to create and sustain new products, such as excellence in operations and customer relationships — both of which are potential sources of Core Competencies.

  **Open the discussion to other areas including intangibles. Keep in mind that there are at least ten**

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1 The authors have identified 10 critical dimensions of value for technology companies, only one of which are the technical aspects. The combined dimensions of value make up your “offering”; that is, the expectations that your customers believe they are purchasing from you.
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dimensions of value — and performance (banner specs) is but on of them

• The probability of taking the early results and using them as if they were valid or final result in a flawed set which will may cause irreparable damage to your growth strategies

It is very tempting to assume that the early results of the process to identify Core Competencies are indeed final. Keep in mind that critical business decisions will be made based on the list of competencies; consequently, it is important to follow the process to its conclusion, including validation and risk management.

Ensure that the discovery process is thorough, allow ample time for discussion and dialog. Then conduct additional rounds with other stakeholders until your level of certainty is adequate

• Allowing financial pressures on the company to interfere with the Core Competency process results in a hurried process overlooking important competencies

The ebb and flow of the technology business plays havoc with longer-term initiatives; e.g., stopping the funding needed to complete the job due to lower-than-expected results, re-assigning personnel for urgent or emergency problems, etc.

Start the process with a long-term view; that is, allow sufficient calendar time to the process. Generally we suggest at least three calendar months, but additional time may be necessary.

Ensure that all participants understand that it takes time to identify and validate core competencies.

• Having the “immune system” of the organization set in imposing a negative perspective in the process resulting in total failure or flawed information

The denial factor tends to terminate initiatives that seem threatening to the status quo. We label it the “immune system” because it acts as having anti-bodies that threaten anything that is perceived as challenging the conventional thinking of the culture.

Retain an outside facilitator who can help you overcome internal resistance.

Include people who are eager to change in the discovery process to balance any negative perspectives.

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Step 3: Interview Your Customers

You need to

You can create a steady flow of winning

It's a step-by-step guide to every aspect

Rapidinnovation has published a series of books on product development. They were written by experienced product developers for those who must implement critical business processes in product development environments.

The Voice of the Customer for Product Development

This guidebook addresses the pressure to obtain customer requirements rapidly — and shows you how to turn this knowledge into innovative products faster and better than your competitors.

It's a step-by-step guide to every aspect of obtaining, processing and applying knowledge of your customers — so you can create a steady flow of winning products.

Risk Management and FMEA for Product Development

In product development, the imperative to reduce time-to-market is always present — and risks can cause catastrophic delays. What if you could predict and manage risks, so they don't interfere with your time-to-market goals?

This step-by-step guide addresses every aspect of identifying, prioritizing and mitigating product development risks. It's written by veteran product developers who understand the pressures of creating innovative products faster than your competitors.

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