A critical review of Sustainable Competitive Advantage as the ubiquitous dependent variable and Core Competency theory as the critical internal driver of performance

Reuben Maino Daniel
The Papua New Guinea University of Technology, Department of Business Studies
Private Mail Bag, 411 LAE, Morobe Province, Papua New Guinea
rdemaino@gmail.com

ABSTRACT

The academia and practitioner world of business and management continue to wrestle with some unresolved phenomena in the face of rapidly changing market demographics. This review is aimed at critically reviewing the concept of Sustainable Competitive Advantage as the ubiquitous dependent variable and Core Competency theory as the critical internal driver of performance. The review begins by explaining Porter’s Industrial model of competitive advantage, and then focuses on Barney’s Resource Based View of competitive advantage. The author then reviews the Core Competency model of competitive advantage coined by Pahalad and Hamel, and then explains how Sustainable Competitive Advantage can be determined by corporations in the face of current rapidly changing market environments based on understanding the three models of competitive advantage.

Key words: Competitive advantage, Industrial model, Resource-based model, Core Competency model, Sustainable Competitive Advantage

1. Introduction

Defining a clear relationship between the concept of Sustainable Competitive Advantage (SCA) and Core Competencies of Corporation (CCC) has remained confusing for some time. Though the concepts are often seen as being dependent on each other, it requires certain contingency variables or considerations to ascertain SCA as the ubiquitous dependent variable of the function and CCC being the independent variable. The last two decades has witnessed significant changes in business environment, including increasing international competition, rapid technological advances, deregulations, e-commerce, cost cutting, and an increasing fluctuation of customer demands (Zhong-hai, Bo, & Hong, 2008), all of which have consequently brought great challenges and influenced the drift in meanings of many concepts in business, including SCA and CCC.

Despite of the drifting definitional clarity of the concepts and the seemingly confusing relationship between the two concepts, both SCA and CCC are strategic crown jewels (Hafeez, Zhang, & Malak, 2002), greatly desired by almost every business organization around the globe. There should be some provisional explanations of the relationship between SCA and CCC that should be able to mediate consensus between the academia and practitioner divide.
1.1 Core Competencies of Corporation (CCC)

Prior to the emergence of the concept of CCC, competitive advantage theories traditionally asserted that in order for firms to gain competitive advantage, they must exploit the forces driving the market dynamics (Hafeez, Zhang, & Malak, 2002). The founding work on competitive advantage established by Porter (1985), argued that the firms are homogeneous in their stock of assets and capabilities, therefore, competitive advantage depended on the firm’s ability to successfully manoeuvre the five external force of competitive advantage; bargaining power of buyers, bargaining power of suppliers, rivalry among established firms, threats of potential competitors, and threats of substitute products. However, the rapid globalization trends and the international business competitions in the recent years have forced firms to look within themselves to develop competitive edge. That exposed limitations to Porter’s industrial organization model of competitive advantage.

In the face of sheer globalization trends and international business competition, new wave of strategic management evolved, as firms stepped beyond Porter’s Industrial Organization model of surviving competition. The Resource-Based View (RBV) came into the scene, when Barney (1991) argued that a firm is understood to be a bundle of assets and capabilities that can make all the difference in acquiring competitive advantage. He argued that firms will acquire sustainable competitive advantage only if they possess valuable resources and are able to use them to exploit external opportunities, neutralize external threats and also address their internal weaknesses.

The RBV does not disqualify Porters five forces model but, complements and takes it further by focusing on both internal and external constituents of competitive advantages. Barney (1991) further asserted that the potential resources of a firm are empirically characterised as having value, rarity, imitability and substitutability relative to their competitors. He further argued that competitive advantage based on firms valuable resources can come to an end due to factors such as changes in the industry, and consumers. The valuable resources alone do not generate competitive advantage but the ability to effectively and efficiently operationalise the resources relative to competitors does. Another further argument to RBV is the definition of the term ‘resource’ and what it specifically entails. Conveniently, firm resources have been classified into three classifications: physical capital resources (Williamson, 1975), human capital resources (Becker, 1964), and organizational capital resources (Tomer, 1987).

Then, the concept of Core Competencies of Corporation (CCC) was coined by Prahalad and Hamel (1990), to explain competencies in diversified firms with many strategic business
units (SBU). However, there is much confusion in the definitional clarity of the terms competencies, capabilities, resources and assets (Hafeez et. al., 2002). Core competencies are not discrete individual assets of the firm but are unique strengths, usually result from ‘collective learning’ process that span over multiple products and markets (Hafeez et. al., 2002). According to Klein, Gee and Jones (1998), competencies are usually a network of capabilities, rather than single activity based. Competencies are usual the basis for multiple lines of products and businesses within a corporation and are the most important constituents of cross-functional business processes (Hamel, 1994; Rumelt, 1994; & Doz, 1997). It raises the issue whether a corporation should be a portfolio of SBUs or a portfolio of Core Competencies.

2. Sustainable Competitive Advantage (SCA)

The global business and economic landscape is not steady, and the industrial structures and broad market demographics constantly shift. The external micro and macro environment within which firms operate are independently changing, requiring firms to align resources, capabilities, competencies, and strategies to harness new opportunities, counter new threats, and maintain continued relevance of their products relative to market needs. Firms that enjoy success based on the present favourable internal and external conditions and become complacent, not thinking of sustaining their competitive edge amidst changes can face abrupt fall sooner, as commonly referred as ‘icarius paradox’ (Miller, 1992).

Guo (2007) enquired whether academic research on SCA really helped businesses to achieve SCA or close the ever enlarging gap between academia and practitioner. Wiggins and Ruefli (2002), empirical study using longitudinal data from six thousand companies over forty industries found few achieved superior performance as consequences of SCA, but rarely kept it for extended period of time. Wiggins and Ruefli (2005) later found that SCA is not the same as competitive advantage maintained over time, but differing competitive advantages occurring at varying points of time. Therefore, SCA is a dependent variable that perpetuates as firms have the competitive advantage of developing new competencies that are able to meet opportunities in new markets that emerge from the shifting external environment. It is contrary to static discrete resources that fit specific market condition. Moreover, firms need to have the ability to strategically manoeuvre their resources, integrate and harmonize with different strategies that are able to exploit new opportunities. It is about continuously finding a strategic fit between the application of core competencies and the emerging opportunities in the dynamic environment that creates SCA. Therefore, organizations need to institutionalize reliable ‘organizational learning’ and ‘innovation’ culture to maintain SCA.

According to Hoffman (2000), SCA is the prolonged benefit of implementing some unique value-creation strategy not simultaneously implemented by any current or potential competitors along with the inability to duplicate the benefits of this strategy. Barney (1990) has focused on firm’s internal bundle of resources with four distinctive attributes, while Prahalad and Hamel (1991) has combined firm’s resources, skills and distinctive capabilities into core competencies. Therefore, firms establish SCA by effectively harmonizing resources, skills and capabilities in distinctively enduring ways.

3. Relationship between SCA and CCC

Generally, SCA is ubiquitously the dependent variable that depends on the CCC. However, this statement alone can potentially attract contesting views to explain the specificity of the
relationship. While much has been said about Barney’s RBV and Prahalad and Hamel’s Core Competency model, what is the relationship between SCA and CCC?

The different sources of SCA in a ‘static’ industrial environment and ‘dynamic’ industrial environment are not the same. A ‘dynamic’ industry is one ‘contingency’ that mediates a relationship between SCA and CCC. In a dynamic industry, smart firms that learn properly from their past and present trends and derive reliable foresight manage to adapt the operationalization and application of their CCC towards the new opportunities, counter emerging threats and maintain competitive edge. Sustaining competitive advantage over time relative to present and potential competitors depends on the firm’s that effectively learn and are able to shape and integrate existing CCC and innovate and acquire new CCC that can create superior value for current and emerging markets. Figure 3 illustrates the linear relationship between SCA and CCC in a ‘dynamic’ industrial environment.

![Chart: SCA and CCC in a dynamic environment]

Figure 4: SCA and CCC in a dynamic environment

This relationship requires few more explanations. Firstly, SCA is not only about maintaining the same competitive advantage. It is about acquiring or innovating new CCC to meet emerging market needs. For such purposes, firms invest in new resources or even acquire and merge with other firms to inherit new CCC that they can benefit, so to obtain SCA. Secondly, firms innovate new ways of harmonizing the application of existing resources and capabilities towards emerging markets. That is much easier when a corporation is considered as a portfolio of core competencies, instead of a portfolio of strategic business units (SBUs).

Another contingency that mediate the relationship between SCA and CCC is the structure of the firm. The ability to establish SCA is contested between the ‘top view’ of perceiving and treating the corporation as a portfolio of SBUs, and the ‘side view’ of perceiving and treating the corporations as a portfolio of core competencies. According to Prahalad and Hamel (1990), the problem with many Western companies is not that their senior executives are less capable than those in Japan nor that Japanese companies possess greater technical capabilities. “Instead it is their adherence to a concept of corporation that unnecessarily limits the ability of individual businesses to fully exploit the deep reservoir of technological capabilities that they possess” (p.81). The firms that arrange themselves as portfolio of CCC are better positioned to quickly harness their collective learning, easily coordinate diverse production skills, integrate multiple streams of technology and harmonise the application of their CCC to emerging opportunities, and sustaining the competitive advantage.
4. Conclusion

Academics have contributed in myriad ways to explain the relationship between SCA and CCC, to help practitioners find their fit to generate performance outcomes. Much of the literatures focus on explaining the role of resources in achieving firm’s performance. Prahalad and Hamel combined all resources, capabilities and other assets as core competencies (CCC). Firms can establish SCA in a dynamic industrial environment when they are able to learn and innovate smart ways to mobilize their existing competencies to apply them in an effective and efficient way to create superior value for current and emerging markets. Firms must also innovate or acquire competencies that serve the needs of the changing markets. SCA can also be effectively determined by firms that have a structure that concentrates on exploiting core competencies.

The concentrated focus of treating the firm as a portfolio of core competencies puts the firm in a stable position to pursue SCA. The 21st century business executives and managers are challenged to keep their rate of learning in par or ahead of the rate of change affecting the markets. It becomes an ongoing battle to ensure that their internal competencies are appropriately integrated, aligned and cultivated to create value relevant for both current and emerging market needs. The definitional clarity and use of key theories and concepts in management need to be constantly analysed in order to bridge certain gaps between practitioners and academics.

5. References


A critical review of Sustainable Competitive Advantage as the ubiquitous dependent variable and Core Competency theory as the critical internal driver of performance

Reuben Maino Daniel


