Lesson Six: Capabilities or competences

These are the distinctive competences that are difficult for competitors to copy and which are linked to the achievement of a competitive advantage in a particular market. Hamel and Prahalad (1994) introduced the concept of core competences. These are defined as bundles of skills and technologies that enable a company to provide a particular benefit to customers. To be considered a core competence a skill must pass three tests:

_ It must make a disproportionate contribution to customer value.

_ It must be competitively unique.

_ It must be applicable to a range of products.

They argue that the firm should be regarded as a collection of core

competences rather than a portfolio of assets.

Kay (1993) identifies four basic kinds of distinctive capability:

_ ***Architecture***, ie a network of relationships within or around the company. Internal relationships are with or among employees; external ones are with suppliers, customers or joint venture partners. Architecture depends on the ability of the company to build and sustain long-term relationships and in this way to create a favourable operating environment that cannot easily be replicated by competitors.

_ ***Reputation***, which is particularly important in markets where product and/or service quality is important but can only be demonstrated over relatively long periods of time.

_ ***Innovation*** and the ability to exploit it so as to gain a sustainable competitive advantage.

_ ***Strategic assets***. These are of three main types – natural monopolies, cases where the costs of infrastructure have already been incurred so that new entrants benefit from an advantageous cost structure and cases where companies benefit from regulations or licensing requirements that restrict entry to the market.

Implementation

A sound strategy is of little value if implementation is weak. Implementation begins with *planning* and *scheduling*. It involves *Strategic management and its context,* decisions about such things as *organization structure*, the *allocation of resources* and the level of *risk* that is acceptable. It also involves leadership as well as managerial skills, particularly when, as is often the case, the adoption of a particular strategy involves major organizational change.

Sustainable competitive advantage

This is what the strategy is designed to achieve – a position in the market such that the company is not only able to earn a higher profit margin than its competitors, but is able to sustain that position over a significant period of time. In the world of the 21st century the 'significant period of time' may be quite short, particularly in the case of industries characterized by rapid technological developments. The implication is that, depending on the speed of change that characterizes a market, companies will need to carry out strategic reviews at appropriately frequent intervals.