

Capabilities as Structuring Dispositions: Reframing Core Competencies in Practice Terms

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Extended Abstract

The resource-based view (RBV) of the firm remains arguably the dominant approach to strategy research in what some have called the 'post-Porter' era. According to this view, it is the mixture and development of capabilities and heterogeneous resources that provides a firm's fundamental source of competitive advantage. The inspiration for this modern RBV framework has been traced to the seminal work of Edith Penrose (1959) who suggested that the growth of firms can be better understood in terms of the resources it possessed such as technical and human skills, brands, financial and physical assets, distribution networks and so on. It is this Penrosian conceptualisation of the firm as a bundle of resources which has been appropriated by the modern resource-based view in the strategic management literature (Wernefelt, 1984; Barney, 1986, 1991, Khor and Mahoney, 2004).

Unlike the 'outside-in' paradigm of industrial organizational economics best exemplified by the work of Michael Porter, the resource-based view is an 'inside-out' model of corporate strategy that emphasises the importance and significance of resources and strategic capabilities in generating competitive advantage. One major recent development in this resource-based view has been the introduction of the notion of 'core-competencies' of a firm (Prahalad and Hamel, 1990: 89-90; Hamel and Prahalad, 1994: 223-228). According to Hamel and Prahalad (1994) a core competence is a 'bundle of skills and technologies that enables a company to provide a particular benefit to customers' (p. 219). For example, in the case of Sony, the core competence is believed to be 'minaturization' whilst the benefit to customers is 'pocketability'. Core competencies are not product-specific. Instead they represent a particular unique and hence difficult-to-emulate configuration of skilled practices and knowhow that lies at the root of the competitiveness of a firm. Core competencies are *transposable* capabilities that can be applied across a number of products and services and that makes a 'disproportionate contribution to customer-perceived value' (p. 224). They are not like tangible assets or resources in that core competencies don't show up on the balance sheet yet are extendable capabilities that provide gateways to future opportunities. A core competence is an 'aptitude' or 'skill' for doing things. Hence, 'A factory, distribution channel, brand, or patent cannot be a core competence - these are things rather than skills' (p. 228). Moreover, not all *capabilities* are core competencies. That is the reason why 'What was once a core capability in one decade may become a mere capability in another'

(p. 232, our emphasis). And the reason why this is the case is that ultimately it is the customers who are the judges of whether or not a capability is a core competence (p. 225) since it is ultimately the customer who decides if there is indeed value-added in the offerings. We can gather from this close reading of Hamel and Prahalad's (1994) articulation of core competence that it is fundamentally a capability that, under the right set of contextual circumstances, becomes a core competence. So, core competencies are latent capabilities that are potentially the source of competitive advantage.

In attempting to conceptually differentiate core competencies from capabilities and resources, Hamel and Prahalad appear to gerrymander between the idea of core competence as an intrinsic firm capability on the one hand, and, on the other, the idea of core competence as necessarily defined by customer-perceived value. In attempting to link an attribute to the question of success Hamel and Prahalad find it necessary to conflate the quality of a 'possession' (core competence) with the quality of a relationship (success). Herein lies an ambivalence. Either miniaturization is an internalised capability that Sony is good at regardless of customer perception or it is the customer who picks it out as being significant and of value from a whole host of other attributes. It cannot be both. If the identification of 'miniaturization' as a core competence is done post-hoc through hindsight to account for the success of Sony then, in principle, we will never know what the core competence of a firm is until the market calls it so. If, on the other hand, core competence is something that characterises the way a firm responds and engages with the outside world then it must exclude the question of customer value as a condition of definition.

This ambivalence, we argue is attributable to an inadequate theoretical grounding of an otherwise important intuitive notion. Whilst the idea of core competencies is an extremely attractive notion for explaining the success of firms, it needs conceptual separation and development. We need to know: a) how and why a firm develops certain key aptitudes and capabilities; and b) how does the market come to perceive the products that issue from this set of capabilities to be desirable and hence of value to the customer. That the idea of 'core competence' is considered part of the RBV agenda also does not help since core competencies are not effectively 'resources' but implies the possession of an internalised aptitude or skill. The terms capabilities, core competencies and resources remain problematic and at times appear interchangeable and the underlying tension is attributable to the attempt to reconcile the relational concept of customer value on the one hand with the independent properties of the firm on the other. This tension is resolvable by a re-reading of the idea of capabilities and core competencies through the work of social theorists such as Pierre Bourdieu (1977/2002, 1990, 1998) and Hubert Dreyfus (1991) who have made the focus on practices, skills and achievements their research priorities. We maintain here that the RBV approach with its emphasis on capabilities and 'resources' can be productively reinterpreted in terms of practices.

In this paper we argue firstly, that the notion of 'core competencies' is better understood, not so much as a resource or 'possession' but as an internalised *modus operandi*, a cultivated way of engaging with the world. Core competencies reflect not what firms have but how they orient themselves towards themselves and the external world and hence the manner in which they perceive the potentialities internally available as 'resources' to be used. In other words, core competencies are what allows a firm to identify an innate source as a resource. Core

competencies are a set of habituated predispositions that reach deep into the originary roots of a corporation and indeed into the cultural roots of the society within which it is embedded. Thus, Sony's propensity for 'minaturization' is not merely something unique to it but is something that draws deep down from the roots of Japanese culture and practice. We have only to remember the beauty of bonsai plants, the ornate practices of origami, and the established art of painting on rice-grains to realise that this Sony's passion for minaturization draws from a very noble and illustrious historical Japanese tradition. For this reason, we need to look beyond the immediate confines of management and economic theories to understand how in fact such core competencies emerge.

Secondly, we go on to argue that the 'success' of a firm only results when a particular set of internalised dispositions coincides or resonates with the concerns and preoccupations of the wider society that it engages with. This is the reason why and how some latent capabilities become 'core' whilst others are relegated to merely a 'base-line' capability (Hamel and Prahalad, 1994: 233) over time or when structural upheavals take place in an industry. The underlying approach adopted here for reframing this notion of core competence is a decisive analytical shift from the managerialist preoccupation with justifications for success to a focus on understanding how and why certain skills and predispositions are developed within socio-cultural contexts and why they may come to be viewed as desirable in the global marketplace. In so doing we attempt to show that core competence reflects an overall relational style of engagement that a firm adopts towards its externality rather than a property that it possesses. It is a habituated way of engaging with the world and hence can be either an advantage or a disadvantage depending on changing external circumstances.

Finally, we maintain in this paper, that to effectively appreciate the notion of core competence in these socio-cultural terms we need to adopt a relational philosophy of understanding that incorporates a dispositional theory of practice. By relational, we mean that ontological primacy is given to actions and interactions and not to prior individuals or entities. By dispositional, we mean to draw attention to tendencies inscribed in the material bodies of agents through historical acts of socialisation and acculturation.

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