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INDIA'S CORE COMPETENCE

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Core competencies and focus are the mantras of the corporate strategies in developed economies. Core competencies represent accumulated knowledge and skills within an organisation which are peculiar and fundamental to it and cannot be easily replicated. They provide sustainable competitive advantage to the oragnisation and should form the corner stone of its long term strategy for growth and diversification. Focussing on core competency helps organisations visualise their strategy of nurturing and building upon selected existing business and diversifying into new businesses that could capitalise core competencies to gain competitive advantage, etc. The present paper discusses various dimensions of core competence in Indian context.

AN INTRODUCTION TO CORE COMPETENCE

A core competence may be defined as a combination of complementary skills and knowledge bases embedded in a group, or team, that results in the ability to execute one or more critical processes to world class standards.

The above definition does not include patents, brands, products and technologies. It also excludes broad management capabilities such as strategic planning, flexibility and teamwork and also high corporate themes like quality, productivity and customer satisfaction such themes are final outcome of maintaining core competencies and not the core competence itself.

Core competencies can be of two types:-

Insight Competence

Under this, a company can acquire facts and skills due to which it can gain the advantages of taking initiative. Insight competence can be derived from :

1. Gaining technical or scientific knowledge
2. Possessing innovative and creative skills within the company.

For example :-

* CRISIL was the first company to come out with the idea of credit rating Financial instruments and stocks in India.
* HDFC was the first company to come out with the idea of providing housing financing in India.

Front-line execution competence

These competencies arise where the quality of an end product or service can vary substantially in line with the activities of front-line personnel. A company, which has such a competency, has the unique ability to deliver products and services that are consistently almost equal in quality to what

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the best person would have produced under ideal circumstances.

For Example :-

* Wall Mart departmental store in USA has developed this competence.
* Singapore Airlines is known for its best customer competence.

CORE COMPETENCES IN DEVELOPED MARKETS.

Core competencies and focus are the mantras of the corporate strategies in developed economies.

C. K. Prahlad and Gary Hamel who are the world famous gurus of core competencies, in their theory hold that organisations generally have a set of unique skills, which lend them a competitive advantage, and they should align their business to those skills. Core competences are, however, not to be confused with core business.

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Core competencies are collective learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams of technologies. It is also about the organisation of work and delivery of value.

For example:

One of Sony's competences is miniaturization.

To achieve this objective, Sony ought to ensure that technologists, engineers and marketers have a shared understanding of customers needs and of technological possibilities.

Core competence is communication, involvement and deep commitment to working across organisational boundaries. It involves many levels of people and all functions.

CORE COMPETENCES IN EMERGING MARKETS

The doctrine of Core competency authored by C. K. Prahalad has been questioned by Tarun Khanna and Krishna Palepu particularly regarding its ability in emerging countries like India wheel infrastructure development viz., private sector role in developing roads, ports, airports, bridges etc. offers huge potential.

In this scenario, Indian Industrial groups like Reliance, Tata etc. having no prior experience in such sectors have shown their keen desire to enter these areas. Apart from the above there are other peculiar reasons which favour the existing businesses/ industrial groups opting for diversification as against restricting itself to one core line. Some of such factors are:-

1) Lack of information

In developing economy buyers and sellers usually suffer from a severe dearth of information. As mentioned earlier communication infrastructure is weak. For example, postal delays, power shortages, lack of telephone facilities are a common feature in developing economies.

As a result of lack of information companies in emerging markets incur much higher costs in building credible brands then their counterparts in advanced economies. A diversified group with a reputation for quality products and services can use its group name to enter new businesses, even if those businesses are completely unrelated to its current lines.

Groups also have an advantage when they do try to build up a brand because they can spread the cost of maintaining it across multiple lines of business such groups thus have a greater incentive not to damage brand quality in any one business because they will pay the price in other businesses as well.

2) Limited Enforceability of Laws

Even if information about products and company are made available there are no mechanisms to check the claims made by sellers. Independent consumers' organisations hardly exist and government watchdog organisations are of little use.

Consumers have no option but to accept the products as they are because of lack of effective judicial systems.

Despite the extensive involvement of government in emerging markets, these economies lack effective mechanisms to enforce contract. In advanced countries companies can work together under contractual arrangements because they know the courts will protect them, if their partners break their contract. However, courts in emerging markets after enforce contracts inefficiently due to which companies are less likely to be able to resolve disputes, through judicial routes.

In such circumstances diversified groups can bank upon reputations established by honest dealings in the past. Because of the misdeeds of one company in a group will damage the prospects of others, all group companies have credibility when they promise to honour their agreement with any single partner.

This credibility pays off the most in relationships with companies seeking to enter emerging markets. Foreign providers of technology or finance need local partners to carry out their strategies, but they worry about being duped. A reputation for honesty and reliability can thus be a source of enormous competitive advantage.

In India, the largest and most diversified business groups receive a disproportionate share of technology and financial support from developed countries around the world.

3) Underdeveloped Capital Markets

Lack of information about capital markets refrain investors from putting money into unfamiliar ventures. The developed countries solve these problems through institutional mechanisms such as reliable financial reporting, a community of analysts etc.

The Securities and Exchange Commission and other watch dog agencies make it difficult for unscrupulous entrepreneurs to mislead investors. In developed countries, therefore managers and directors are answerable through the threat of securities litigation and hostile takeover.

By reducing risks to investors, these institutions make it possible for new enterprises to raise capital. These institutional mechanisms due to which capital markets function effectively are absent in emerging markets. Investors are reluctant to put money into new enterprises as they have very little information about capital markets.

In such circumstances, diversified groups can show their track records of retain to investors. Due to which, large and well-established companies have superior access to capital markets.

Diversified groups can also invest their retained earnings from other existing businesses. Diversified groups are also attractive to foreign investors eager to put money into emerging markets: Outsiders turn to diversified groups and invest in a wide range of industries in the absence of financial analysts and knowledgeable mutual fund managers. Investors trust groups to evaluate new opportunities and to exercise an auditing and supervisory function.

4) Less Trained Personnel

A lot of emerging markets suffer from a scarcity of well-trained people due to dearth of business schools and vocational training facilities.

However, if the companies in emerging countries go for diversification they can create value by developing promising managers and they can spread the fixed costs of professional development over the businesses in the group. For example, in India, many large groups have internal management development programmes. These programmes are held to develop the skills of experienced managers.

Governments in developing countries usually make it difficult to companies to adjust their personnel to changing economic conditions stringent laws often prevent companies from deciding about their personnel policies. To cope with such rigidities, the diversified groups can develop extensive internal labour markets of their own. If one company in-group faces declining prospects, its employees can be transferred to other group companies.

4) Bureaucracy and Corruption

Governments in emerging markets are heavily involved in an array of business decisions. Although the old license Raj" has been abolished, according to Indian law companies still have to get permission many decisions, such as existing businesses, importing raw material or machinery etc. Bribes and other corrupt practices may be part of working with the bureaucracy.

Diversified conglomerates can add value by acting as intermediaries when their individual companies and foreign partners need to deal with the regulatory bureaucracy. Experience and connections make it easier for the groups to carry cost of maintaining government relationships.

Thus we can see that without effective securities regulation focussed companies may be unable to raise adequate financing without strong educational institutions, they will struggle to hire skilled employees. Communicating with customers is difficult when the local infrastructure is poor and unpredictable government behaviour can block any operation.

But all the above points do not mean that having core competencies and focus is not beneficial in developing countries. They are very important, as we shall see in the next section.

CORE COMPETENCE IN INDIAN CONTEXT

The role of core competence in India is peculiar i.e. both For and Against. On one hand, there is need to concentrate, consolidate on the basis of core competence for large industrial groups viz. Tata, Birla etc. On the other hand there is scope for taking up diversified projects in infrastructure etc, which were earlier not open to private sector.

FOR

The current phase of unrelated diversification by Indian businesses is unlikely to last for long. With gradual slowing down of market growth, maturing of the economy and increasing competition from international firms, Indian businesses have already begun to concentrate on consolidating and strengthening their existing businesses. Mergers and Acquisition have to start in town. They will also begin to rely on their core competencies for growth, such firms control afford the luxury of unrelated diversification and must build their own plans around their core competencies.

A few leading Indian pharmaceutical companies like Ranbaxy and Lupine have focussed on their core competence of process skills to fashion their long term strategy.

BPL has taken the advantage of its strength in marketing and distribution of consumer electronics to develop a range of new business in consumer durable.

As the company matures, competition builds up, more and more Indian companies will be forced to fall back on their core competencies for survival as well as growth.

Examples:

1) Take the case of Tatas, which were known, for their diversity and corporate benevolence. With a little help from Mc Kinsey, Ratan Tata plans to convert Rs.30,000 crore empires into a more focussed group. This aim in to restrict the spread from 80 to 30 companies, focussing on 10 to 12 crore businesses instead of current 25.

2) At Rs.5303, for Larsen and Tubro, the focus is back on core strengths i.e. engineering and construction equipment. Even if it mean of ....its steel and alumina projects and selling the shipping, electronics testing equipment and computer peripheral businesses.

3) Similarly, at Rs. 5000 crore in RPG group, a new hold company - RPG infrastructure and Investment - will consolidate all group companies functioning in the infrastructure sector.

4) Britannia industries is drawing up ambitious plans to turn into Rs.1800 crore food and beverage baggie. The new focus looks always from backed Foods with like cheese and diary whiteners, but not at the cost of core products. Biscuits.

AGAINST

With the opening of the Indian economy there has been a sea change in the business environment. Because of licensing restrictions, reservation for the public sector etc, Indian firms did not have access to industries such as power, oil exploration and production, telecom and the like during the pre-liberalisation, period. These industries have now been opened up and offer attractive diversification opportunities to the Indian sector.

Many mature economies it is necessary to focus on core competence and build competitive advantage around them. However, in a rapidly growing economy such as India, in the current phase of liberalisation, it is often more important to seize emerging opportunities first and concentrate on building core competencies and competitive advantage later.

Even one-time focussed players like Reliance have diversified into sectors like oil exploration and infrastructure.

One can not achieve any kind of global size in a product or sector, our markets are not big enough. One also suns like risk of being swamped by global competition in a single sector.

CONCLUSION

We have to look at the organisation as a portfolio of competencies, of underlying strengths, and not just as a portfolio of business units. Business units are focussed on products ad markets, whereas core competencies are focussed on customer benefits such as Apples "User-friendliness" and Sony's "pocketability". We must identify the core competencies, which allow us to create new products as well as be successful in existing businesses; and we must ask ourselves what we can leverage as we move into the future, and what we can do that other companies can not.

Moreover, the success recipes from your part may no longer be the success recipes for your future, For example quality was a source of competitive advantage in the past. That is where the efforts of many companies have been focussed. But in 21st century, quality will nearly be the price of market entry, so there is need to move on just as Japanese are doing. They were the ones who created competition based on quality.

However, Japanese manager realise that today's competitive advantage may no longer be differentiates tomorrow. In a recent survey the source of competitive advantage that Japanese manager rated first for the future was not quality - it was the capacity to create fundamentally new products and businesses. Says C. K. Prahalad.