CORE COMPETENCIES: PART II

THE HUMAN SIDE OF CORE COMPETENCIES

INTRODUCTION

In Part I, we offered a method for identifying the core competencies of a company and ensuring alignment with a profitable business model. This is a good process but may oversimplify some of the complexities of the real work place.

This newsletter, the second of a three part series, focuses on some of the potential problems that may arise in the determination of core competencies. Our next newsletter will explore lessons learned from working with core competencies through times of rapid corporate transitions.

THE TESTS

As defined by C.K. Prahalad and Gary Hamel, a corporate skill set can be classified, and managed, as a core competency if…

1. Excellence in the skill leads to product or market expansion, or both, and
2. Improvements in the skill lead to attributes that customers find of value, and
3. It is difficult for a customer or competitor to replicate.

THE HIERARCHY

At a recent social function, a discussion of the tests for core competencies was rapidly leading to the conclusion that the vast majority of tasks performed within a company weren't core competencies. This view can be quite divisive since it defines the work associated with a core competency so narrowly that it excludes most of the people in the company. A contrary view is that any function within a company can somehow be defined as a core competency. We view both of these views as very simplistic and offer a more realistic definition to aid in actual management of a company. We begin with a practical hierarchy of tasks within a corporation.

1. At the highest level, the set of activities and skills to support a corporate competency that meet the above tests are considered, as an entirety, a core competency. The skills required to maintain and grow core competencies are by definition distributed throughout different organizations and functions within the company.
2. The set of activities and skills required for the corporation to function well, but not associated with core competencies of the company are at a lower level of importance. These tasks should be performed competently and at the lowest cost point. They should be performed efficiently, effectively and not require significant managerial attention or debate. Examples of some of these tasks in most high tech companies include benefits administration, payroll, cost accounting, SEC filings, functions that support corporate culture and morale, and facilities maintenance.
3. Finally, tasks not involved with core competencies or required for the corporation to function should be eliminated.

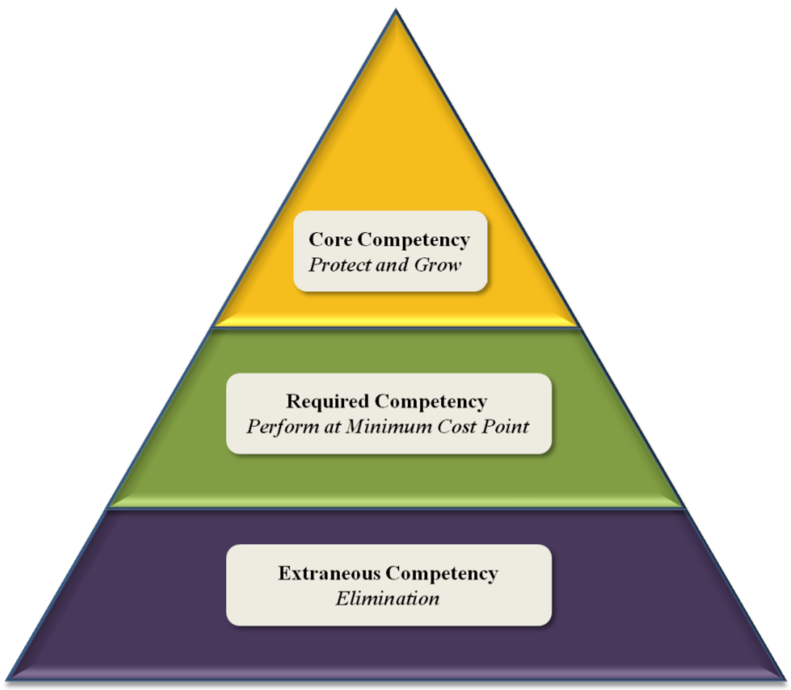

FIGURE 1: A DEPICTION OF THE HIERARCHY OF COMPETENCIES WITHIN THE COMPANY.

A central issue is that corporate resources will be directed to growing core competencies. This means that any discussion of what qualifies as a core competency carries an implication for the careers and the livelihood of employees. Because of this, the selection and structuring of core competencies are guaranteed to launch strong emotional responses from your organization. This newsletter discusses why some of these responses occur and offers suggestions as to how to handle them.

BELIEFS AND BIASES

The understanding of core competency requires the understanding of many aspects of the company and its processes: the underlying markets, the customer base, technologies, financials, and employee skills. Because this identification process is truly a team sport, it is best done when experts on these different areas work closely together. This discussion needs to take place with all members participating in the determination of core competencies.

The leader of this process must structure it to be a vigorous and candid discussion driven by ideas supported by data. Without a legitimate exploration of ideas, the acceptance of strategic concepts by the organization will be very limited. If the decisions are largely based on emotions or ignore realities and numbers of the real world, the decision-making process will lead to poor outcomes.

We cannot state strongly enough, that in tough discussions, the battle must be among ideas, with data and clear thinking settling as many issues as possible. Setting the stage to get ideas in the mix for discussion and to engage people in constructive and critical analysis of ideas is the central role of the leader of this discussion.

In this next section, we'll discuss some of the biases that can arise in these discussions. We have stereotyped some common responses, partly to provide some levity, but also to provide some suggestions as to how to handle typical reactions from people.

We have categorized typical characteristics. This doesn't mean that these reactions and descriptions fit these labels, for instance, the person primarily responsible for the financial models, could be someone in Finance, Marketing, Business Development, Corporate Strategy, or even Product Development. Rather, it is a convenient way to talk about some of the more common problem attitudes we've observed in strategic discussions.

THE NUMBERS GUY

A good Numbers person can develop an envelope of a business model very quickly, and can become impatient with the length of time required to fully understand important, but qualitative, business and/or technology issues. In the end, having a good business model is fundamental, but the process of agreeing on those qualitative issues should be worked through before financial scrutiny is considered final. Not all facets of issues can be worked into financial models before they are even articulated. Problems can occur when technical insecurities prevent business finance people from spending sufficient time understanding the technological aspects of core competencies. Spending time with technologists and market experts, and asking enough questions to get a decent feel for the technology and market, both improves the overall capability of the Numbers guy and builds bridges of trust that will aid the company when tough final decisions are made for financial reasons.

One way to test the Numbers guy participating in the selection of the core competencies is to look at the respect given to them by the other leaders within the company. If they are thought of dismissively, it is a warning sign that their basic understanding of the business is not sufficiently comprehensive and that the Numbers guy should dive headfirst into understanding other aspects of the business. Although it should be obvious, Numbers folk must have a good understanding of the underlying business market and technologies to have a strong voice at the table.

THE TECHNICAL GUY

The Technical guy can be unwilling to take the time to learn about how financial models work. This reluctance to understand financial statements can come from insecurity or arrogance (after all, they sometimes think that finance is no more than a little algebra). This can sometimes be portrayed in a passive-aggressive fashion ("sure, financial numbers are easy"), while at times it can simply be a withdrawal from discussion when financial jargon is used.

Technical staff can also be sheltered from many of the functional areas of the company. At times, this arises from the fact that technical problems can often be very engrossing or it can be because technologists can at time be rather introverted. At the level of sole contributor, this is not a large problem, but at the executive table it is important to have technologists that understand the roles of the different functional areas and are fully engaged in all aspects of business decisions.

The technical staff participating in strategic discussions should have a working knowledge of financials and the functions and processes throughout the company. They also need to deeply understand that having a healthy, profitable business is the primary objective for the company. Because significant technical members of the company often are several layers removed from executive staff, it is very important that the technical leaders of the company communicate with the scientists and engineers driving the corporate technology.

THE MARKETING GUY

The selection of core competencies is directly linked to the strategy for the company. The Marketing function is central to strategy development, synthesizing the customer inputs from Sales with the potential capabilities of the company. In the context of working through the discussion of core competencies, Strategy, by definition becomes contentious issue, and the Marketing function can come under severe pressure if the Corporate Strategy is not well understood or developed. This is normal, and should lead to in-depth discussion of the strategy and its strength.

In fact, the Marketing chair should be occupied by the strongest overall business mind of the company. The articulation of a customer wish list does not constitute good strategy, and simply repeating a wish list with bravado is both intellectually lazy and obvious to other staff members. Any discussion of core competencies, where the direction of the entire company is being weighed, must have solid and deep Marketing effort and savvy.

OPERATIONS AND SUPPORT GUYS

The Operations guy needs be an integral definer of core competencies. A common Operations' response to a strategic discussion is one of passive aggressiveness, where the attitude is taken to be "just tell me what you want done". Operations must be engaged, working through the critical issues of how to fully integrate Operations into the entirety of the company.

Two common mistakes are often seen coming from support functions. The first is a desire to elevate activities that need to be performed well, such as, payroll or benefits, into core competencies. Such a belief undermines the idea of what core competencies are and how important focus is for a company. These tasks, as described above, fall into our second hierarchical category: these tasks should be done efficiently and at the lowest cost point.

The second bias that we've seen in support functions is a lack of participation in developing strategies for their own organizations to support the actual core competencies of the organization. Most core competencies require the support of all functions, and it is crucial that each functional area consider their role in creating and supporting healthy core competencies. Think of the core competencies as the skeleton of the human body. The entire body must work together to remain healthy.

CORE COMPETENCY AND ORGANIZATIONAL STRUCTURE

A large part of the effectiveness of a core competency comes from a concentration of expertise which encourages ideas and knowledge to be shared and developed. Because of this, we suggest that a core competency be located within a central location, as opposed to spread across several locations.

In addition, we caution against splitting pieces of a corporate core competency and placing them in different business units of a company. The semiconductor industry has often had business units, with specific product development capabilities within each business unit, coupled with a strong corporate research group focused upon the core technical competencies. This may be an appropriate structure for companies that want the external focus and speed that comes from a business unit structure but still need to maintain the concentration of their technical core competence.

These comments are based upon the idea that by concentrating corporate assets, including people, upon core competencies leads to more creativity and aids in the growth of the competencies. Of course, in a larger company, this can also lead to the group of people associated with the core competencies behaving as though they are elite, or worse, have the core competencies becoming detached from the rest of the organization. It is the responsibility of the management team to constantly work to both improve core competencies and to ensure that these centers are engaged with the rest of the organization.

CONCLUSION

In our first newsletter, we covered a process for determining what core competencies are needed for the strategy of the company.

This newsletter discusses why this process can be so emotional. A definition of the hierarchy of activities within the company is described. Normal biases that people bring to this discussion are examined, and practical approaches for dealing with these issues are suggested.

To best preserve and grow core competencies, it is suggested that the core competencies be located at a single location when possible, and that the competencies be as concentrated as possible in the corporate reporting structure.

Our next newsletter will discuss preserving competencies during difficult transitions, such as extreme growth, market slumps, and the integration phase of post acquisitions.

Cheers,

The InSite team