

Study on Enterprise's Core Competence

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Abstract: Having been a member of WTO, China have nothing to do but develop her own enterprises' core competence to face more and more furious market competition. But so far, our enterprises have no abundant core competence, for there are no preparations for strategically adapting themselves to their resources. As for the above questions this article stresses that enterprises hold up strategic procedures, undertake super-competition strategy, maintain the main products, and nurture their core competence. [The Journal of American Science. 2006;2(1):71-74].

Key words: Core competence; strategy; WTO

Introduction

The term "Core competence" was first put forward in the 1990. In the book *The Core Competence of the Corporation*, collaborated on by famous management experts C.K. Prahalad and Gary Hamel. It points out, "Core competence is optimized knowledge and skills inside some organization, especially regarding how to adjust diverse manufacturing skills and optimize different technologies and skills." In their view, core competence first of all should provide the enterprises with the potential to enter different markets. Secondly, core competence contributes largely to the value of customers of the ultimate products. At last, we should know, enterprises' core competence should be something that can't be duplicated and imitated by their rivals. Just as Zhang Ruimin, president of Haier Group said, "Novelty is the real core competence for Haier, which is no way difficult to be imitated by our rivals."

Besides the above characteristics, core competence owns other features. Firstly, core competence is the ability to collect. In most cases, it is a collection of different abilities in groups. Few enterprises survive just for their dominant single ability. Core competence is an optimized and integrated knowledge and skills which are developed by the faculty in different departments

through their continuous learning, acquiring knowledge, sharing knowledge and applying knowledge. This is also the reason it is not easy to imitate some enterprise's core competence. Single things could be duplicated but the complex are harder to imitate. It is impossible to copy the core competence optimizing system and relative surroundings, let alone that core competence is invisible and untouchable, which only could be shown by the core products by way of its carrier. So there is no way (invisible and untouchable) or difficult (costly expenses) to purchase.

As the conflicts of competition in the market increase in China, the competition between enterprises lies mostly in the competition of core competence.

1. Analysis on our Enterprises' Core Competence

We could say that core competence to China is a new problem as well as an old one. It is old for once enterprises enter the market, and want to survive the market, possession of core competence is a necessity; it is new for most of China's enterprises to develop themselves away from the old-fashioned system, and gradually strengthen themselves in the immature market economy. Because of lack of core competence, enterprises couldn't manage affairs freely when

competent against their rivals. Especially facing the top 500 in the world, for the survival risk after being member of the WTO, they would lose more than large areas of the market unless they make the proper preparations with consideration.

According to the characteristics of core competence, observing whether some enterprise has established its own core competence depends on the following indicators: the first is whether there are obvious competition differences; the second is induplicability; the third is the possibility of shifting from the current business to the future business; the fourth is the possession of some recognized unique value.

Compared with foreign ones, few Chinese enterprises will reach standard level. Moreover, most enterprises are chasing the advancement of equipment and large scale of the enterprise. The largest bottleneck lies in how to make the experience-based acceleration lacking the market economic conditions. Therefore, although those enterprises possess a considerable amount of physical resources, fortune resources and industry right of possession, they can't make these resources some kind of competent resources integration. As a result, they can be outstanding for a time, but they can't keep any advantage for long, specifically speaking, the competence of products made by Chinese enterprises mainly derives from the following aspects:

Firstly, cheap resource advantages. In the past, Chinese enterprises had squandered lots of rare resources such as soil, capital or intellectuals, but they didn't afford enough cost. The land for state-owned enterprises is something granted, and supply of lots of cheap manpower. It The cheap and even free-of-charge rare resources made the products of some enterprises competent in the market.

Secondly, monopoly of the government and protection of local government. With the existence of monopoly and local protection, other enterprises outside the place and in the foreign countries are excluded, and Chinese enterprises even refused the entering of alien

commodities with fake commodities.

Thirdly, hard work and tolerance. Foreigners generally work eight hours per day, five days per week and have about 20 days off every year; but in share-owned and private companies, employees always work every day per week, and more than ten hours per day. The competence of some products mostly comes from the cheap cost of manpower.

Great changes have taken place for the exterior circumstances of Chinese enterprises till today when a market economy has developed. Especially after entering the WTO, with the strengthening of integration of domestic and international markets, rivals for Chinese enterprises are foreign enterprises with mature market experience. Objectively the new and higher demands for Chinese enterprises'core competence are required. Subjectively with more than ten years'acceleration and development, with the experiences from successes and failures, Chinese enterprises have made experience preparation for their core competence. Now is the moment to develop with all the favorable conditions.

If Chinese enterprises are considered according to some standards of core competence, Haier Group may be called a big industry enterprises on the way to form its own core competence. In a couple of years, Haier has integrated 18 enterprises, collected 1.52 billion yuan capital, employed 15 thousand staff; products made by Haier cover from "white household electronic machines" such as washing machine, refrigerator and air conditioner to "black household electronic machines"and even to "brown ones", which total together more than 20 classifications, more than 5000 products; a whole set of formula models of household electronic machines promoted publicly accepted by Chinese consumers; an all-oriented, three-dimensional, multi-stage internationalized high-technology opening network, and the speed of two new products made within 3 days, quality management system with no error and the like, all contribute to the features of the concept of serving the customer to create Haier Group said, all

the achievements rest in Haier-featured core competence. And Zhang Ruimin himself "the role in the future mainly is set on the integration, connecting the resources from all aspects together ideally." Integration virtually is a collection of all advantages to form core competence. So far what China lacks must be this "integration". But only depending on Zhang Ruimin himself to integrate the resources of enterprise individually, no doubt it is a risk. It also proves to be that what Zhang was just kidding: "Haier will be another Titanic only if there is some question in it."

Therefore, Chinese enterprises (including Haier), lack some kind of strategy to integrate enterprises' resources. Although Haier has its own promotion rules, market strategies, it is Zhang Ruimin who is in charge of the final decisions, which should be common in Chinese enterprises. It must be embarrassing to discuss which is more powerful, right or laws. It has a long history in the bureaucratic system and it is also known that it is a long way to build a country controlled by law in China.

Entering the WTO means placing China into a match with a public international game rule, if Chinese enterprises don't obey the rule, they will be fouled out. Under the legal conditions, Chinese enterprises come to know how to do, while facing the top 500 in the world, they know what to do.

2. Nurture the enterprise core competencies

The enterprise core competencies are nurtured by the enterprise itself. When we take a comprehensive view of two long-lasting top 500 international enterprises, we discover that the core ability of these business enterprises comes from the same and particular link of the business enterprise value chain, namely a strategic link. This link can be production one, sales one or research one. It can have certain supportive added-value one as well. To keep the strategic advantage of the enterprise, the key is a strategic link that controls the business enterprise value chain. NIKE is one of the biggest international enterprises that

manages sports wear. But NIKE doesn't make shoes: what they do is design and sale. They leave production to the developing countries. Korea and China are its biggest producing bases. Its headquarters have no more than 70 people, mainly engaging in the product design and marketing, set up its own core ability, make it grow prosperously. .

The market economy is the competition economy, an enterprise that doesn't have competition ability can hardly exist and develop in the market. The result of the competition may be more market share, may also be profit decrease or loss capital due to the high competition cost. Therefore, the high life span company follows the super competition principle to develop generally. Competition principle is all the competitors race on the same track.

It's Intel that researched the memory of a computer. In 1965, a Japanese semi-conductor enterprise made Intel lose business for 6 months after entering the American market with the cheap or price, the company of Intel took super competition principle as the guide line finally, gave up the memory, and the brain parts chip of the information technique, made the company create the brilliancy continuously, and even held the lead in the frontier of information techniques. At present, the production of Intel takes 80% of world chip market share. The numerical color television of the United States vanquishing the emulation color television of Japan, the quartz clock of Japan vanquishing machine clocks of Switzerland are all results that pursue the super competition principle. Most Chinese enterprises follow the traditional competition principle. They have to imitate and follow the foreign rivals; thus it is difficult for them to form their own core capacity because of their lack of advanced techniques. In these two years the profitable the once glorious Chinese enterprise, ChangHong Group, fell to their market suffered a defeat. The initial reason was what they follow is competition principle, such as price wars.

Why don't fight directly but search for value

innovation? To answer this question, we must first answer that to a enterprise are your rivals important, or a customer important? Is competition itself important, or profits and growth important? Competition and profit is a contradiction. If the former weaken, the profits grow. While defeating the opponent can acquire larger market share at the same time, then increase the profits. This is traditional strategic logic. According to new strategic logic, value innovation can solve the contradiction. The basis is to acquire more and more customers because the main purpose of the business enterprise is profits and growths. Although the profits mode based on competition for principle acquired the same customers the former, it can not reach the expected result. The profits mode value innovation can not only acquire customers but also avoid competition cost. The enterprises reach their goals by the goals by the increased value and excess value.

We can conclude the lack, uniqueness and the character of hardly to be imitated of the core capacity request the enterprise insist the difference principle in the links of researching, manufacturing and marketing.

Moreover for Chinese enterprises, carrying out a diversified strategy currently is a main aspect that the enterprise loses the core competencies. Being one of the most important management, diversified strategy is widely used by Western big enterprises in the 60's and 70's. It has many successful examples. But it is not suitable for most of the Chinese enterprise to use diversified strategy. First, this strategy request four basic conditions--capital, technology, management and marketing. Only when the core business can't absorb surplus capital, the enterprise is entitles to consider

diversified problem. Whether they walk on diversified road, they need to analyze if enterprise has the necessary technique, management and the sale abilities in another profession, because these three main factors of different professions are different. Second, many enterprises walked back to their original field, thus highlight the core capacity since the end of 80's. The GE company, put reorganize the diversified execution completely in the 80's. They put forward the "top" principle and reorganize more than 200 subsidiaries as 13. GM let other companies do the purchase flow and gather strength and resources therefore highlight the core capacity. After suffering the financial agitation in 1997, the Korean big enterprises cut 15 fields on the average. The government regulated that big enterprises can be engaged in 4 to 5 professions at the most.

Therefore, based on the current condition of Chinese enterprises, we shouldn't be puzzled by the present temporary prosperity in the current phrase. They should recognize their own position, insisting own characteristics, implementing the super competition principle, strengthening the core competencies of the enterprises.

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