

## Core Incompetencies: The Missing Link\*

Copyright © 1994  
Jay E. Paap

**Core Competencies.** In recent years there has been a growing interest by corporations in developing and defending their core competencies, those skills or capabilities that are critical to achieving their strategic objectives, are in limited supply, and in which they have a defensible competitive advantage.

The concept of core competencies can be important in helping firms focus their energies, but core competencies alone cannot provide all the resources and skill sets needed to meet their strategic objectives. To compete effectively firms need access to the highest level of strategically important resources, both those in which they excel – their *core competencies* – and those in which they are less proficient – their *core incompetencies*, or to use a more positive phrase, *complements*.

**Nature of Complements.** Complements are not just those resources that are lacking, they also include those that are available, but are not used to their fullest. There are three reasons why firms do not fully use their resources – the three Rs of *Resource* availability, *Risk*, and *Resistance*.

Failure to exploit potential competencies is not always bad, it can result from a justifiable strategic decision based on a realistic assessment of the alternative uses of the resources, the costs and risks involved, or the total effort required to overcome resistance. Regardless of the reason for their existence, complements must be managed with the same attention and diligence as core competencies.

**Descriptive Assessment.** The first step in developing a strategy for managing complements is to conduct an audit to find out which strategic resources are sourced internally. There are three questions to ask: are the resources available, are

they being used, and are there barriers to prevent their being used?

**Strategic Assessment.** The second step is to identify which ones should be sourced internally. Among the factors to consider:

- The proprietary nature and value of the technology. Does it have to be kept internal to avoid losing it to an unfriendly third party?
- The relative maturity and likelihood of substitution. Will the competitive advantage last long enough to warrant taking extra precautions to protect it?
- Investment level to maintain your technical position. Can you afford the effort needed given the overall business climate and alternative uses of resources?
- Alternative external complements. Are there satisfactory resources available that could be acquired on an exclusive or near exclusive basis?
- Organizational, cultural, and political realities. Will it be easier to go outside than to eliminate the resistance?

**Transition Strategies.** Comparison of the existing and the ideal gives rise to four strategic alternatives:

- Maintain and defend core competencies.
- Change a complement into a core competency.
- Sustain an external source of complements.
- Spin-out a core competency into a complement.

		<i>Desired</i>	
		Core Competencies	Complements
<i>Current</i>	Core Competencies	Internal development Blocking efforts: Alliances License out	Spin-out: Subsidiary Equity carve-out Joint venture Alliance
	Complements	Acquisition Internal development Transition efforts: License in Alliance Consortium	Alliance Joint venture License in

**Maintain Competencies.** The first option, maintain and defend core competencies, has been covered extensively in the literature. These are needed to sustain your competitive advantage and provide a sound base for expansion. By definition, they are maintained through internal development, although firms may form alliances or license to others to minimize the development of competing competencies.

**Develop New Competencies.** Transitioning from complement to competence is probably the first option considered since firms tend to want to control and own all their critical strategic resources. This may not always be the optimal strategy and can inhibit a firm's ability to focus on their really important core competencies.

It can also be the most difficult and time consuming, particularly if a competency is a complement because of political, bureaucratic, or technical resistance. The two major transitioning options are acquisition and internal development. Interim strategies involving licensing or alliances can be used to provide the resources until an internal source is built up and effective.

**Sustain Complements.** There have to be good reasons to look to the outside for strategic support for extended periods of time. In the short term, alliances are the favored source of complements. In the long term there is the danger that the source may be lost, through

inattention, falling out among the partners, their involvement with a competitor, or a shift in the partner's strategy. More stable sourcing arrangements such as joint ventures, alliances, or semi-independent subsidiaries are preferred long term strategies.

**Spin-Outs.** The spin-out of a core competency into a complement is perhaps the most recent and controversial approach. Why would anyone release control of a core

competency? There are three main reasons: to minimize risk, provide alternative funding, and to create a more entrepreneurial environment for the development and maintenance of a strategic resource. There are several forms available, from spin-offs based on equity carve outs to more traditional vehicles such as forming joint ventures or subsidiaries.

Recently, firms such as Thermo-Electron and United Technologies have successfully used spin-outs to create a reliable source of core technologies, and done so faster and at lower cost than from internal development. There are concerns about spin-offs, e.g., the loss of complete control and the administrative effort required. However, firms are finding the benefits often outweigh the risks.

**Conclusion.** There is no single strategy for ensuring the availability of critical resources. What is needed is a comprehensive and flexible approach that recognizes that there are both advantages and disadvantages to maintaining core competencies, and an understanding of the options available for managing complements, or core incompetencies.

**Paap Associates, Inc..**  
351 Waban Avenue  
Newton, MA 02468  
(617) 332-4721  
e-mail: jaypaap@alum.mit.edu

\* Based on a presentation at The Planning Forum International Conference: *Core Incompetencies: The Missing Link*, New York, NY; April 11, 1994.