Core Competence, Distinctive Competence, and Competitive Advantage: What Is the Difference?

Article *in* The Journal of Education for Business · August 2010

DOI: 10.3200/JOEB.83.2.110-115

Ann C. Mooney
Stevens Institute of Technology

VIEWPOINT

Core Competence, Distinctive Competence, and Competitive Advantage: What Is the Difference?

ANN MOONEY
STEVENS INSTITUTE OF TECHNOLOGY
HOBOKEN, NEW JERSEY

ABSTRACT. Core competence, distinctive competence, and competitive advantage are 3 of the most important business concepts that managers, researchers, and educators rely on for decision making, pedagogy, and research. However, little attention has been paid to defining these concepts. As a result, they have become buzzwords that are used so frequently that their meanings are often taken for granted but are not fully understood. In this article, the author reviews the evolution of these concepts in business literature and provides comprehensive definitions, conceptual models, and examples to help clarify and distinguish the concepts so that failures of communication can be avoided.

Keywords: competencies, competitive advantage, strategy

Since its genesis in the mid-20th century, the study of business disciplines has become an established academic discipline. The proliferation of business curricula, journals, and academic and professional associations is evidence of a dramatic growth in business education. Although the growth has improved the understanding of business and informed business practices, with growth comes various problems. For example, business practitioners, researchers, and educators are confused over important terms and concepts used pervasively in the field. An understanding of key concepts is critical for the foundation from which business practitioners and academics communicate and future research builds. In this article, I explore three important concepts: core competence, distinctive competence, and competitive advantage.

Business experts, particularly in strategic management and marketing, are constantly advising firms in all industries to develop core competencies and distinctive competencies and create a competitive advantage. An examination of the use of these three concepts, however, reveals a problem. They have taken on somewhat of a buzzword status, whereby they are used so frequently that their meanings and interrelations are taken for granted and assumed to represent ideas that are not necessarily valid. Practitioners and researchers seem to underestimate the complexity of these concepts, perhaps because little guidance exists as to what these concepts mean and how they relate to each other.

In this article, I review and synthesize the evolution of the use of three important concepts in the common business lexicon: core competence, distinctive competence, and competitive advantage. This analysis of business literature serves as a foundation for offering comprehensive definitions, conceptual models, and examples with which the concepts can be understood and communicated. This is a practical approach because these concepts are often a critical part in the development and understanding of business strategies. Moreover, a clear understanding of the three concepts will help avoid research problems stemming from ambiguity, thus allowing for a more rigorous conceptual foundation for future research.

The Evolution of the Use of Core Competence, Distinctive Competence, and Competitive Advantage in Literature

Core Competence

Although Andrews (1971) introduced the concept of *core competence* as “the core of competence” (p. 46) and defined it as “what the company can do particularly well” (p. 46), an earlier work by Ansoff (1965) provided a rich discussion of its meaning. Ansoff did not use the term *core competence*, but he described the concept's major elements in his discussion of creating a "common thread" (p. 105) in the firm's competencies that represents "a relationship between present and future product markets which would enable outsiders to perceive where the firm is heading, and the inside management to give it guidance" (p. 105).

Since Ansoff and Andrews, researchers have added richness to the meaning of core competence. One influential study was by Prahalad and Hamel (1990), who explained that core competencies are the primary competencies that a firm leverages to compete, although the competencies may often be difficult to identify or overshadowed by the importance of the firm's products. Using the analogy of a tree, Prahalad and Hamel explained that core competencies are like the root system that "provides nourishment, sustenance, and stability" (p. 82) and warned that "you can miss the strength of competitors by looking only at their end products in the same way you miss the strength of a tree if you look only at its leaves" (p. 82).

Consistent with Prahalad and Hamel (1990), other researchers have described core competencies as the basic building blocks for a firm's corporate strategy (Collis & Montgomery, 1995; Frery, 2006). In particular, when deciding to diversify, researchers have stressed the benefits of choosing businesses that draw on existing core competencies (e.g., managerial expertise, innovation capabilities) because leveraging such abilities can result in cost efficiencies and operational effectiveness that help a firm compete in new businesses (Markides, 1997; Porter, 1987). For example, Nike has leveraged successfully its expertise in marketing by extending its brand beyond sneakers to athletic clothing and retail stores and by hosting athletic clubs and online communities that are likely to buy its products (Holmes, 2006). An analysis of core competencies can also be helpful in assessing past diversification strategies by revealing a need for further competence development, outsourcing, restructuring, or downsizing (Hafeez, Zhang, & Malak, 2002; Webster, Malter, & Ganesan, 2005). For example, in 2005, IBM sold its personal computer (PC) division to Lenova, largely because IBM perceived PCs to be too far removed from its core competence of providing services, software, and high-end computers.

My review of core competence research highlights two essential attributes of core competence. First, a core competence must be a skill or capability of a firm rather than the mere ownership of a resource. Second, core competencies should be prominent in helping a firm achieve its purpose (Collis & Montgomery, 1995; Prahalad & Hamel, 1990). In other words, a core competence is central to a firm's value-generating activities.

Distinctive Competence

The term *distinctive competence* was first coined by Selznick (1957), who argued that distinctive competencies "may yield a better way of classifying organizations than focusing attention on similarities in structure or in aims" (p. 50). In other words, distinctive competencies help a firm stand out in its markets when its competencies are superior to its competitors' competencies (Andrews, 1971, 1980; Collis & Montgomery, 1995; Hitt & Ireland, 1985; Littler, 2005). Selznick explained,

> A distinctive competence is not necessarily restricted to the outcome of an organization's peculiar adaptation to its own special purposes and programs. A somewhat more general competence may develop, as when we say that a firm is good at marketing, but less successful in production. (p. 50)

It is important to note, however, that individuals outside the firm must notice a competence as distinctive, or as Neil (1986) explained, "It must be highly visible to consumers" (p. 20). Furthermore, a distinctive competence must be sustainable; otherwise, its existence will be too fleeting to have a significant impact on the firm. Collis and Montgomery (1995) recommended that for a distinctive competence to be sustainable, it should be difficult to imitate. Firms can accomplish this goal by involving factors such as brand loyalty, successful technology, causal ambiguity (i.e., difficulty disentangling what the resource is or how it is created), and economic deterrence (e.g., economies of scale). For example, Target stores have developed a distinctive competence in branding whereby with a quick glance at a simple, red target mark, customers are able to associate it with the store chain and its strategy of everyday low prices.

In summary, several key attributes of distinctive competence emerge from the literature. First, distinctive competence, like core competence, must be a skill or capability of the firm. Second, as the term suggests, distinctive competence must be distinctive; it must be visible to customers and perceived as superior to that of other firms. Last, for a distinctive competence to be sustainable, it should be difficult to imitate.

Competitive Advantage

Probably the most common business concept today is *competitive advantage*. Despite its wide use, few researchers have attempted to define the concept, and it is often confused with distinctive competence (Day & Wensley, 1988). Exceptions include work by Ansoff (1965), who broadly defined *competitive advantage* as the "properties of individual product/markets which will give the firm a strong competitive position" (p. 79), and Uyterhoeven, Ackerman, and Rosenblum (1973) and Hofer and Schendel (1978), who referred to competitive advantages as the manner in which a firm applies its skills and resources to an individual product or market.

Porter's (1985) book titled *Competitive Advantage* propelled the concept of competitive advantage into popular business vernacular. Porter did not articulate a definition of the concept but explained that a competitive advantage refers to organizational factors that enable a firm to outperform its competitors. As such, Porter argued that sustaining competitive advantage should be the central purpose of an organization's competitive strategy and that creating value is the means to attaining it.

> Competitive advantage grows fundamentally out of value a firm is able to create for their buyer that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for

> equivalent benefits or providing unique benefits that more than offset a higher price. (Porter, 1985, p. 3)

Porter's (1985) arguments reflect the common strengths, weaknesses, opportunities, and threats (SWOT) framework for assessing competitive advantage. Competitive advantage stems from a firm's ability to leverage its internal strengths to respond to external environmental opportunities while avoiding external threats and internal weaknesses.

The resource-based view of a firm offers an alternative to this basic framework by focusing on superior resources as a source of sustained competitive advantage (Barney, 1991; Wernerfelt, 1984). As Collis and Montgomery (1995) explained, "Competitive advantage, whatever its source, ultimately can be attributed to the ownership of a valuable resource that enables the company to perform activities better or more cheaply than its competitors" (p. 120). Moreover, to be sustainable, a competitive advantage should be difficult to imitate or substitute (Barney, 1991). For example, King (2007) argued that firms sustain competitive advantage when their competencies possess strong causal ambiguity because competitors are less likely to identify or understand such competencies well enough to imitate them. For example, competitors have found it difficult to imitate Starbucks' unique store atmosphere and branding competencies and, as a result, Starbucks has sustained its competitive advantage (Michelli, 2006).

Thus, like a distinctive competence, a competitive advantage must be difficult to imitate to be sustainable. Unlike a distinctive competence, a competitive advantage must also enable a firm to outperform the firms to which it is compared. Last, a competitive advantage can be either a capability of the firm or, unlike a core or distinctive competence, it can be a superior resource such as a favorable location, desirable product, or recognizable brand name that enables the firm to be successful.

Definitions of Concepts and Their Interrelationships

The earlier review of the literature showed that despite wide use of the concepts of core competence, distinctive competence, and competitive advantage, comprehensive definitions of them are lacking. In the following section, I present definitions for these concepts that incorporate the concepts' key attributes.

Core competence: A capability that is central to a firm's value-generating activities.

Distinctive competence: A capability that is visible to the customer, superior to other firms' competencies to which it is compared, and difficult to imitate.

Competitive advantage: A capability or resource that is difficult to imitate and valuable in helping the firm outperform its competitors.

Core competence, distinctive competence, and competitive advantage share common attributes, yet are distinct. To stress these differences, Table 1 shows the essential attributes that compose each concept. As Table 1 shows, the concepts are not always mutually exclusive, and each can take on or emulate qualities of the others. I present these relations in Figure 1 and discuss them in the following sections.

As the conceptual model shows (see Figure 1), a core competence can also be a distinctive competence (Path 1). A core competence is a distinctive competence if the core competence is visible to customers, difficult to imitate, and superior to the competencies of the firms to which it is compared. However, this situation does not occur often because core competencies tend not to be highly visible to customers (Prahalad & Hamel, 1990). For example, an important core competence of General Electric (GE) is its ability to leverage and manage diverse businesses, which is not a distinctive competence because it is not highly visible to customers. Customers are more likely to recognize the strength of GE's products and services than they are to appreciate GE's competence in managing diversity. Conversely, Nordstrom department store's customer service is a core competence because it is central to its business, but it is also a distinctive competence because it is highly visible to customers and perceived as superior to that of other retailers.

As shown by Path 2 of the model (see Figure 1), a distinctive competence can become a competitive advantage. As Hofer and Schendel (1978) explained,

> The key building blocks of strategy at the product/market segment level may be the organization's distinctive competencies. . . and its ability to use these competencies to create major competitive advantages in its chosen domain of action. (p. 66)

McGee (2000) found that small independent retailers were more likely to create a competitive advantage in markets dominated by mass merchandisers when they developed distinctive competencies. However, distinctive competencies do not always result in a competitive advantage because they might not be valuable in helping the firm outperform competitors. For instance, a small local toy store might distinguish itself from mass merchandisers with a superior store atmosphere that includes a play area for kids. Even though customers may appreciate the store atmosphere, they may still be inclined to buy the bulk of their toys from Toys "R" Us because of its lower prices.

Although a core competence may become a distinctive competence, a

TABLE 1. Essential Attributes of Core Competence, Distinctive Competence, and Competitive Advantage

Attribute	Concept: Core competence	Distinctive competence	Competitive advantage
Firm capability	✓	✓	
Central to value-generating activities	✓		
Visible to customers		✓	
Superior to competitors		✓	
Hard to imitate		✓	✓
Valuable to the firm			✓

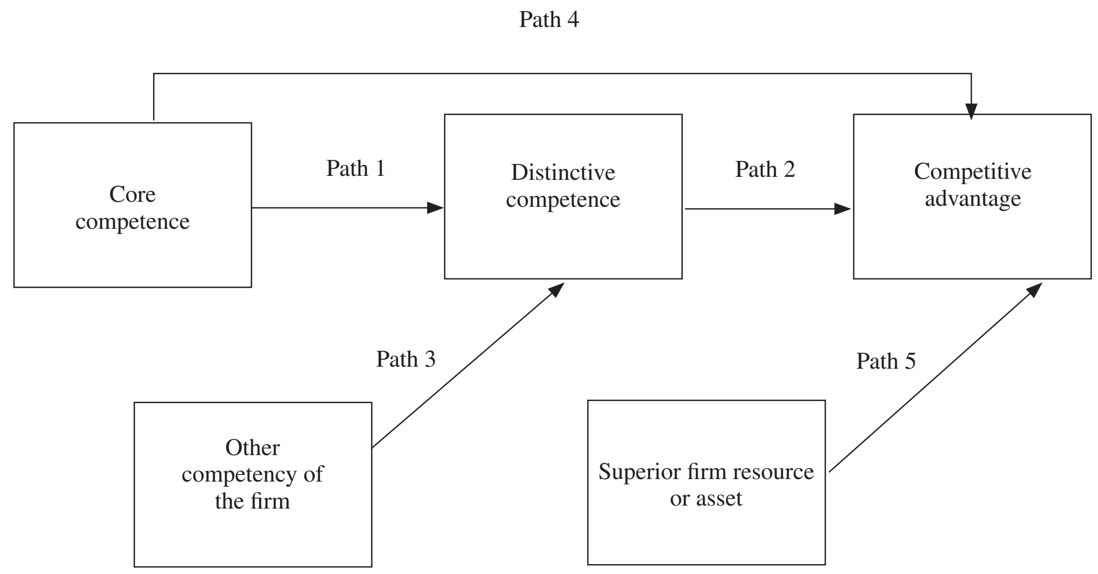

FIGURE 1. A model of the relationships among core competence, distinctive competence, and competitive advantage.

distinctive competence can also stem from other unique competencies that separate the firm from its competitors but are not central to the firm's value-generating activities and thus are not core competencies (Path 3). For example, the production of a firm's end products can be a distinctive competence, but it often does not represent the core capabilities that drive a firm's operations (Prahalad & Hamel, 1990). General Motor's (GM) Hummer, for example, is distinct among other sport utility vehicles in the automobile industry because of its unique rugged design, yet there is little that links this product to other GM product offerings.

Similarly, a competitive advantage does not necessarily emerge from a distinctive competence; the competitive advantage can represent a core competence that is not also a distinctive competence (Path 4). In a sample of 200 middle managers, King, Fowler, and Zeithaml (2001) found that competencies that led to competitive advantages were generally characterized as tacit, robust, and embedded, which may or may not mean that they stood out as distinctive competencies. For example, core competencies (e.g., GE's ability to leverage diverse businesses) could result in a competitive advantage because they enable the firm to garner stronger margins; however, those margins are not visible to customers.

A competitive advantage also does not need to emerge from a competence—core or distinctive. Rather, a firm may derive a competitive advantage from a unique asset or resource such as a favorable location (e.g., a gas station may be successful only because of its proximity to a major thoroughfare) or a strong brand name (e.g., Johnson & Johnson's strong brand name allows it to outsell many of its competitors; Path 5).

An Illustration From the Beverage Industry

A richer and more comprehensive example of the interrelations among core competence, distinctive competence, and competitive advantage can be found in the beverage industry. The distribution of the Coca-Cola (Coke) Company is a core competence because it is a key capability that is central to the firm's value-generating activities—the selling of their beverage products. Coke leverages its distribution power to make products available to its customers, push out competitors, and expand into new markets. Coke's distribution is also a distinctive competence because it is hard to imitate and is generally considered superior to other beverage companies. Last, Coke's distribution is a competitive advantage because it is valuable to the company in helping it outperform its competitors. Consumers buy Coke products in large part because they are conveniently available for purchase.

In contrast, the distribution of Royal Crown Cola (RC Cola), another beverage company, satisfies only the attributes of a core competence. RC Cola's distribution is a core competence of the firm because, like Coke, it is central to its value-generating activities—the selling of its beverages. RC Cola's distribution, however, does not represent a distinctive competence or a competitive advantage because although distribution or availability is a factor affecting customers' purchasing decisions, RC's distribution is not as powerful as that of its competitors, such as Coke or Pepsi.

It is important to recognize that distinctive competence and competitive advantage are measured relative to the firms against which the firm in question is evaluated. For example, if RC Cola's distribution were evaluated only in terms of its strength against smaller beverage companies (excluding Coke and Pepsi), its distribution could be viewed as a distinctive competence and a competitive advantage. Without an explicit comparison to specific firms, judgment tends to be in relation to the industry as a whole.

Business Education Implications

Researchers and businesspeople commonly use the concepts of core competence, distinctive competence, and competitive advantage. A review of the development of these concepts, however, reveals that comprehensive definitions for these concepts and an understanding of their interrelations are lacking in the literature, which leaves room for ambiguity and confusion. For example, scores of business experts tout the importance of developing core competencies (Collis & Montgomery, 1995; Markides, 1997; Porter, 1987; Prahalad & Hamel, 1990), but the real value of core competencies is realized when they form a basis for competitive advantage, which does not always happen. The link between core competencies and competitive advantage is so important that the definitions of the concepts can get blurred. For example, one of the most cited articles on core competencies—Prahalad and Hamel (1990)—suggests that core competencies should be difficult to imitate. Although being imperfectly imitable is most desirable because it enables core competencies to become a competitive advantage, a core competence can exist and yet not bring competitive advantage (e.g., in the example of RC Cola relying on its core competence of distribution).

The concept of distinctive competence can also be misunderstood. Like with core competence, experts often advise firms to develop distinctive competencies (Andrews, 1980; Collis & Montgomery, 1995; Hitt & Ireland, 1985; Neil, 1986). However, a nuance of distinctive competencies that is not always clarified to the firm is that distinctive competencies are valuable only when they help set the stage for a competitive advantage. A distinctive competence differentiates one firm from another. For example, Google has the distinctive competence of developing superior search-engine technology, and Kodak has the distinctive competence of creating superior film. Google's distinctive competence is a competitive advantage because it enables it to outperform competitors such as Yahoo. Although Kodak's distinctive competence in film sets it apart from its competitors, it does not represent a competitive advantage because the traditional film market is no longer as profitable because of the expanding use of digital photography.

The definitions, model, and chart that I present and discuss in this article could be useful tools for helping managers and business students understand the concepts of core competence, distinctive competence, and competitive advantage. For example, instructors might use these tools in conjunction with case discussions as a way of helping students identify a firm's competitive position. It would also be worthwhile for firms to use these tools, particularly the model of concept interrelations, as a means of thinking through key elements of their business strategy. For example, managers might consider what core competencies or distinctive competencies they have and if and how these lead or could lead to a competitive advantage.

This theoretical research could also form the basis for future theoretical and empirical research. Past researchers have explored how firms can develop core competencies (Prahalad & Hamel, 1990), distinctive competencies (Collis & Montgomery, 1995), and competitive advantage (Porter, 1985). However, researchers have conducted fewer investigations exploring how core competencies and distinctive competencies can be developed so that they also are competitive advantages for firms. King, Fowler, and Zeithaml (2001) argue that "many firms are only vaguely aware of the value of their competencies or the important competencies they lack" (p. 95). As a result, they have little understanding of how competencies can be developed into competitive advantages. Ulrich and Smallwood (2004) argue that firms often neglect organizational competencies—distinctive or core—compared with their investments in more physical assets. Ulrich and Smallwood suggested specific strategies for how managers can assess competencies and build on them to yield competitive advantages. Certain types of competencies may be more likely to develop into competitive advantages. For example, distinctive competencies such as superior product development capabilities (e.g., Apple's iPod) may be more likely to create a competitive advantage because they are influential in a customer's decision to buy one product over another. Further research that explores the intervening factors between competencies (core and distinctive) and competitive advantage would be worthwhile.

Discussion

The meanings of core competence, distinctive competence, and competitive advantage are often taken for granted but are misunderstood. I addressed this problem by clarifying the definitions and interrelations among this trio of concepts. I provided clarification by reviewing the evolution of the use of the concepts in the literature and synthesizing the review into comprehensive definitions.

This review of core competence, distinctive competence, and competitive advantage is meant to help avoid problems that have arisen as a result of misuse of the concepts. By understanding the critical attributes and interrelations of the concepts emphasized here, managers will be better able to communicate these concepts within their firms. Academics, particularly in strategic management, can also benefit from the review of literature that I presented in this article. Better understanding of the concepts will help avoid ambiguity in the literature and provide a conceptually sound foundation from which to build future research. It can also help academics improve their teaching of these concepts to future businesspeople.

NOTES

Dr. Ann Mooney's research interests are conflict and strategic decision-making practices of boards of directors and executives.

Correspondence concerning this article should be addressed to Dr. Ann Mooney, Assistant Professor, Stevens Institute of Technology, Howe School of Technology Management, Castle Point on Hudson, Hoboken, NJ 07030.

E-mail: amooney@stevens.edu

REFERENCES

Andrews, K. (1971). Personal values and corporate strategy. *Harvard Business Review, 49*, 103.

Andrews, K. (1980). "Vast wasteland" revisited. *Harvard Business Review, 58,* 28–42

Ansoff, I. (1965). *Corporate strategy.* New York: McGraw-Hill.

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management, 17,* 99–120.

Collis, D. J., & Montgomery, C. A. (1995). Competing on resources: Strategy in the 1990s. *Harvard Business Review, 73,* 118–128.

Day, G. S., & Wensley, R. (1988). Assessing advantage: A framework for diagnosing competitive superiority. *Journal of Marketing, 52,* 1–20.

Frery, F. (2006). The fundamental dimensions of strategy. *MIT Sloan Management Review, 48,* 71–75.

Hafeez, K., Zhang, Y., & Malak, N. (2002). Core competence for sustainable competitive advantage: A structured methodology for identifying core competence. *IEEE Transactions on Engineering Management, 49,* 28–36.

Hitt, M. A., & Ireland, D. R. (1985). Corporate distinctive competence, strategy, industry, and performance. *Strategic Management Journal, 6,* 273–293.

Hofer, C., & Schendel, D. (1978). *Strategy formulation: Analytical concepts.* St. Paul, MN: West.

Holmes, S. (2006). *Nike: It's not a shoe, it's a community.* Retrieved October 22, 2007, from http://www.businessweek.com/magazine/content/06_30/b3994068.htm

King, A. W. (2007). Disentangling interfirm and intrafirm causal ambiguity: A conceptual model of causal ambiguity and sustainable competitive advantage. *Academy of Management Review, 32,* 156–178.

King, A. W., Fowler, S. W., & Zeithaml, C. P. (2001). Managing organizational competencies for competitive advantage: The middle-management edge. *Academy of Management Executive, 15,* 95–106

Littler, D. (2005). Competitive advantage. *Blackwell Encyclopedic Dictionary of Marketing, 1,* 1–46.

Markides, C. C. (1997). To diversify or not to diversify. *Harvard Business Review, 75,* 93–99.

McGee, J. E. (2000). Toward the development of measures of distinctive competencies among small independent retailers. *Journal of Small Business Management, 38,* 19–33.

Michelli, J. A. (2006). *The Starbucks experience*. New York: McGraw-Hill.

Neil, T. (1986). Distinctive competence: A marketing strategy for survival. *Journal of Small Business Management, 24,* 16–21.

Porter, M. (1985). *Competitive advantage.* Boston, MA: Free Press.

Porter, M. (1987). From competitive advantage to corporate strategy. *Harvard Business Review, 65,* 43–60.

Prahalad, C. K., & Hamel, G. (1990). The core competence of the corporation. *Harvard Business Review, 68,* 79–91.

Selznick, P. (1957). *Leadership in administration*. Berkeley: University of California Press.

Ulrich, D., & Smallwood, N. (2004). Capitalizing on capabilities. *Harvard Business Review, 82,* 119–127.

Uyterhoeven, H., Ackerman, R., & Rosenblum, J. W. (1973). *Strategy and organization: Text and cases in general management.* Homewood, IL: Irwin.

Webster, F. E., Jr., Malter, A. J., & Ganesan, S. (2005). The decline and dispersion of marketing competence. *MIT Sloan Management Review, 46,* 35–43.

Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal, 5,* 171–180.