



# The Role of Core Competencies in Improving Strategic Performance: An Exploration of Theoretical Concepts

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**Abstract.** The study develops a theoretical framework aimed at improving strategic performance, using Resources based Theory. This framework is expected to be able to perpetuate organizational performance, by combining core competency dimensions including communication, teamwork, and self-management. Systematic literature review is used to obtain a comprehensive understanding. The findings of this study are first core competencies are the ability of organizations to integrate various competencies of knowledge, technology, resources and organizational management skills efficiently, increasing core competencies will be able to realize strategic thinking and strategic performance. The second organizational learning culture is a sharing culture that involves the exchange of knowledge between organizations, teams, individuals and the environment. Increasing organizational learning culture will increase core competencies.

**Keywords:** Organizational Performance, Strategic Performance, Strategic Thinking.

## 1. INTRODUCTION

Resource Based Theory (RBT) explains that the resources owned by a company have a great influence on the overall success of the company (Wernerfelt, 1984; Penrose, 1959). The logic is that an organization becomes superior and maintains it over time, it must acquire a position and control a valuable, scarce, unreplicable, and irreplaceable resource (Barney, 1991). According to this theory, the ownership of resources in various forms and elements is not an essential condition for the competitiveness of an organization. What makes the company gain profits is the application of competent, efficient and effective company resources. At the same time, as companies enjoy the benefits of resources, organizations must make the right allocative decisions to improve performance and increase competitive advantage. Resources for most manufacturing companies are categorized into tangible and intangible resources. Tangible resources consist of equipment, finance and land, while technology, brands, culture make up the intangible resources of a company. The human factor is an important resource, especially competence.

Organizational competence is a prerequisite before an organization can take important strategic decisions, related to the entry and exit of investment markets in new technologies, building individual capacity and cooperation. Competence as a group of knowledge that characterizes the company and provides an advantage over others. The ability to build and implement core competencies between companies varies greatly, especially for the characteristics they have. Core competencies can be changed from time to time differently. In addition, they must be unique, as well as flexible that can make a positive contribution to effective strategic decision-making. Ljungquist, U. (2013) describes core competencies in various characteristics, referring to important means, which can ensure the survival of the institution in the long term. Describe it as Engemann's primary motive of the institution's end-service and essential services, by expressing it as the organization's unique resources and capabilities, resulting through a combination of the institution's resources and skills. The result can be greater than the capacity of individuals and human resources in the organization. According to Banerjee (2003), the core competency is the ability of an organization to operate efficiently in a business environment and respond to challenges. Prahalad and Hamel (1990) explain that in order to achieve the future quickly, top managers must see opportunities, based on ability and consistently build that cannot be imitated by other companies. The concept of core competencies thus plays an important role in connecting or transforming resources into sustainable

Factors and resources within an organization vary greatly and it is difficult to determine where core competencies lie. It should develop several indicators that can be used as guidelines, such as important competencies in the determining factors of success. The results of the study on core competencies suggest using a) market coverage in terms of accessibility b) creating value and usefulness of the final product contribution (Kahwaji, A. T., Eddin, H. N., & Palalic, R. 2020). Hitt, M. A, Ireland, R.,D and R. E. Hoskisson (2007) explained that sustainable competitive advantage does not have permanent durability. Therefore, organizations must exploit excellence by forming core competencies that can realize relevant excellence in the future.

Ahmad Taha Kahwaji, Hayan Nasser Eddin, Ramo Palalic (2020) in concluding that the weakness of RBT

is that it lacks consideration of the use of key competencies in developing processes that are rare and cannot be replicated from resources to create a source of competitive advantage for the company. The results of the Core competency study affect Strategic Performance (Ibrahim Makina, Judith Nabwire Oundo (2020); William B. Edgar and Chris A. Lockwood (2021); Laura D'Oria, T. Russel Crook, Davi J Ketchen Jr, David G Sirmon, Mike Wright (2021); Kalimullah Khan, Qaisar Khan, Syed Hassa, Jamil and Sher Akbar (2024), while the study of Margaret A. Peteraf, Juan Ventura Oviedo (2007); Manor Salah Jamhour and Dr Sabah Hamees Agha (2010); Dr. Rajendra K. Gupta (2013); B.A Hirindu Kawshala (2017); Core competency has no effect on strategic performance.

Based on the background of this study problem, it aims to explore a new conceptual model that can fill the limitations of previous studies and the research gap between *core competencies* and strategic performance.

## 2. LITERATURE REVIEW

### 2.1. Core Competencies

One of the important tasks for managers in strategic analysis is to understand the relationship between controlled resources and organizational performance (Knott, P. 2009), among which is the view of resource-based organizations (Wernerfelt, 1984, Barney, 1991). The study of the resource-based literature, the *value-rarity-imitability-organisation* technique (Barney, 2002) has become the most recommended method for assessing the resources of a company.

The view of resource-based organization (*resource-based theory*) describes a condition in which the unique or distinctive resources owned by a company are a source of sustainable competitive advantage (Barney, 1991). A company risks losing its sustainable edge over time, especially if supply or demand conditions change. The cost of resources can prevent them from representing a competitive advantage if this exceeds the above-normal values they produce (Barney, 2002). The measure of the value of a resource can only be the value that the company is able to capture in the market exchange (Bowman and Ambrosini, 2000). The most problematic is that resource-based analysis is only useful if it can identify resources that will result in a competitive advantage in the future (Black and Boal, 1994). This is difficult for the most difficult resources to replicate, as these resources emerge as the company grows.

The resources evaluated by the resource-based view can be tangible or intangible assets that are controlled by the company and can be used to develop or implement strategies (Barney and Hesterly, 2006). Intangible resources can include skills, human assets, information and organizational assets, as well as relational and reputational assets. These all represent what the company has. Another group of intangible resources is the capability or competency that represents what the company does (Hill et al., 2007). Prahalad and Hamel (1990) define core competencies as collective learning that gives companies the ability to use resources productively. This makes these resources more important to the company's competitive performance than the underlying resources. Therefore, it emphasizes competencies as an important resource group that must be covered by the analysis using a resource-based view. Competencies are usually unique to each company and cannot be separated from the company, as the company develops (Dierickx and Cool, 1989; Ahuja and Katila, 2004). On the other hand, the privilege in enterprise-level competencies makes them inflexible and therefore difficult to apply in a competitive context (Brumagim, 1994).

When the external environment is in a state of flux, the company's resources and capabilities become a more stable foundation for determining its identity. Therefore, a long-term strategy is: a business in terms of what it is capable of doing. Strategy is the integration of an organization's internal resources and expertise with opportunities and threats from the external environment. The company's resources and capabilities are the foundation for formulating a strategy, because the organization's internal resources and capabilities provide the fundamental direction for the company's strategy (Grant, 1991). He further explained that the basic prerequisite for gaining market power is the necessity of a "*barrier to entry*". Knowing the company's core competencies is a prerequisite before a company can make strategic decisions, including with regard to entering or exiting the market (Hit, Ireland and Hoskisson, 2001). The question that then arises is what conditions must be met if resources and capabilities will be considered as real strategic factors to produce a level of competitive advantage (Widodo, 2008). The basic foundation for the exploration of this study is the relationship between resources, capabilities and strategic assets and their consequences on the quality of the resulting strategies.

### 2.2. Organizational Performance

Organizational performance has been the most important consideration for every organization, both profit and non-profit organizations. It is very important for managers to know which factors affect the performance of the organization in order to take full advantage and take the right steps to get started.

According to Daft (2000), organizational performance is the ability of an organization to achieve its goals by using resources efficiently and effectively. Akpa, V. O., Asikhia, O. U., & Nneji, N. E. (2021) defines organizational performance as an organization's ability to achieve its goals and objectives. According to Al Ariss, A., Cascio, W. F., & Paauwe, J. (2014) organizational performance is the level of achievement of work missions measured in work outcomes, intangible assets, customer relationships, and service quality. Kaplan and Norton

(2001) define organizational performance as the capacity of an organization to achieve its goals effectively and efficiently by using available human and physical resources. This definition provides justification for organizations to be guided by objective performance criteria when evaluating employee work-based performance. It is also useful in evaluating the achievement of organizational goals as well as when developing a strategic plan for the organization's future performance (Ittner & Larcker, 2012).

The purpose of performance measurement is to assist decision-making and understand progress in achieving the results of the Strategic Plan and Action Plan. Strategic Plans and Action Plans usually have related objectives. One of the more difficult tasks for managers is identifying indicators that show progress in achieving goals. Moving towards this results-based approach is not an easy task. Organizational performance is not only affected by definition problems, but also because of conceptual problems as stated by Hefferman and Flood (2000). Akpa, V. O., Asikhia, O. U., & Nneji, N. E. (2021) suggested that there is a difference between performance and productivity. Productivity is a ratio that describes the volume of work completed in a given time frame, while performance is a broader indicator that can include productivity, quality, consistency, outcomes, behaviour (criteria-based) and relative measures (normative), education and training concepts and instruments, including management development and leadership training to build the necessary performance management skills and attitudes.

Many researchers have used the subjective perception of managers to measure outcomes that benefit the company. Organizational performance can be categorized into two categories: financial and non-financial. An organization's profitability is an important financial indicator to reflect the organization's efficiency and the owner/manager's ability to increase sales while keeping variable costs low. Kahwaji, A. T., Eddin, H. N., & Palalic, R. (2020); Moon, B. J. (2013) explained that increasing core competencies which include effective communication, *teamwork* and *capability technology* will realize *strategic thinking* and strategic performance. Therefore, proposition 1 of Maslahah Core Competencies is presented in Figure 1.

### 2.3. Proposition 1 Maslahah Core Competencies

Maslahah Core Competencies is the ability of organizations to integrate various competencies of knowledge, technology, resources and organizational management skills efficiently which have essential benefits in accordance with the goals of Sharia, Increasing Maslahah Core Competencies will be able to realize strategic thinking and strategic performance.

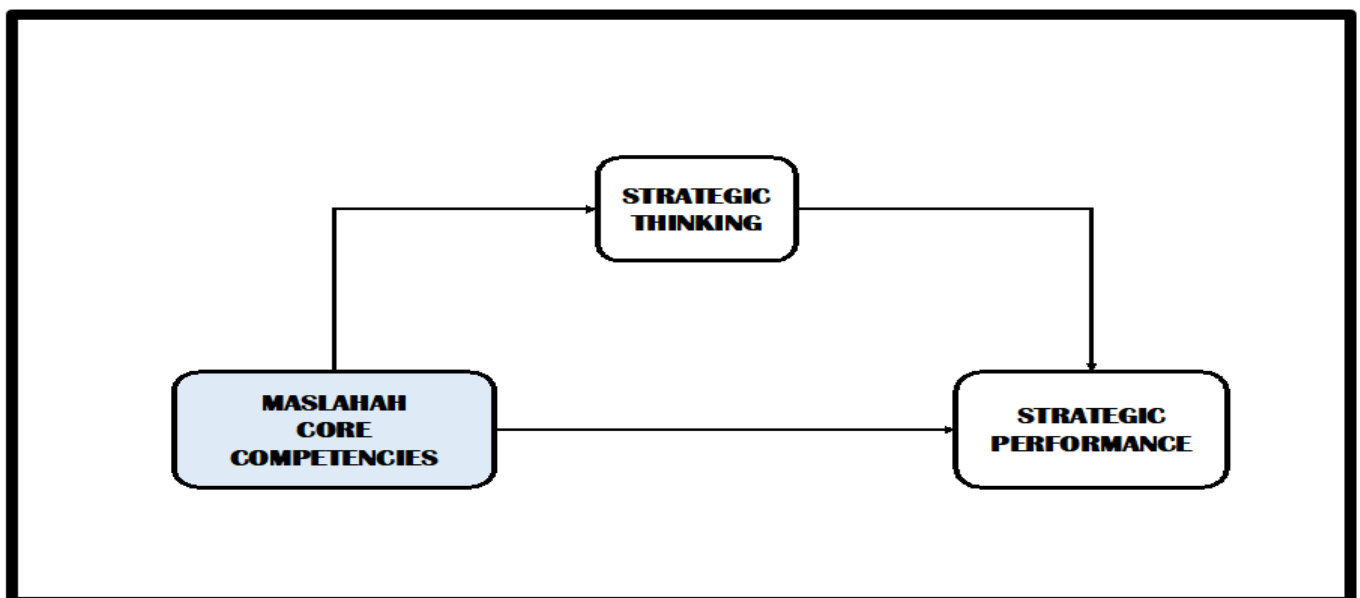


Figure 1: Proposition 1 Maslahah Core Competencies.

Organizational learning is concerned with improving individual behavior and abilities so that the organization can respond to its environment more effectively. Organizational culture pays more attention to being responsible for organizational efficiency. Organization learning culture is a learning organization or considered a tool that encourages and influences learning. Organizational learning generally describes the specific characteristics of an ideal organization, while organizational learning describes processes or activities related to organizational change (Hung, R. Y. Y., Yang, B., Lien, B. Y. H., McLean, G. N., & Kuo, Y. M, 2010). The organizational learning culture starts from the individual to the organization as a whole, and is embedded in the organizational structure. Organizational learning relies on clear organizational goals, a shared culture and relationships between organizational subsystems, structures and cultures to achieve learning outcomes. Therefore, the learning culture of individual learning organizations involves the exchange of knowledge between organizations, teams, individuals and the environment.

Strategic management explores organizational learning and successful corporate strategies are more often associated with the capabilities of organizational resources (Grant, 1991). But resources themselves do not provide a competitive advantage, and must be converted into competencies. Strategic formulation begins with an assessment of the company's resources, capabilities, and core competencies that work together (Barney, 1991). Competence of a company is what it can do as a result of cooperating resources whereas capability involves complex patterns of coordination between people, and between people and other resources leading to a sustainable competitive advantage over time (Prahalad and Hamel, 1990). Strategic action is the embodiment of learning competencies that have been created and made possible (Dunphy et al., 1996). Meher, J. R., Nayak, L., Mishra, R. K., & Patel, G. (2024) explain that organizational learning culture is able to realize competencies. Therefore the 2nd proposition can be presented Figure 2.

**2.4. Proposition 2: Organization Learning Culture**

An organizational learning culture is a sharing culture that involves the exchange of knowledge between organizations, teams, individuals and the environment. Improving organizational learning culture will increase Maslahah core competencies

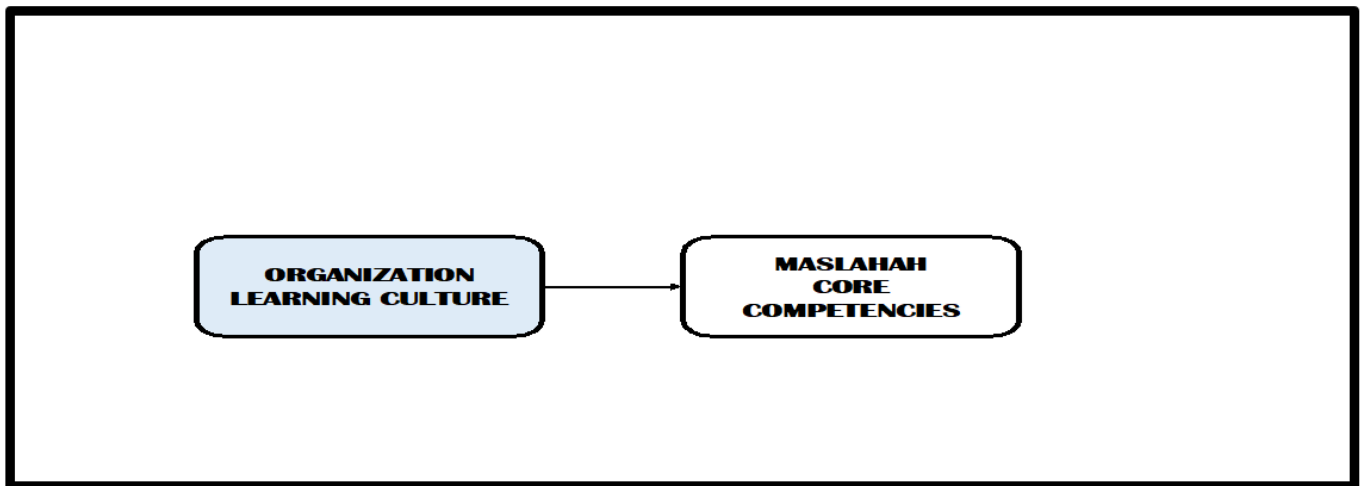


Figure 2: Proposition 2 Organization Learning Culture.

Based on the integration of proposition 1 on *Maslahah Core Competencies* and proposition 2 on *organizational learning culture*, a basic theoretical model (*Grand Theory Model*) can be prepared as presented in Figure 3. The figure shows that increasing *core competencies* will realize *strategic thinking* and *strategic performance*. Then the increase in *Maslahah Core Competencies* is triggered by *organizational learning culture*.

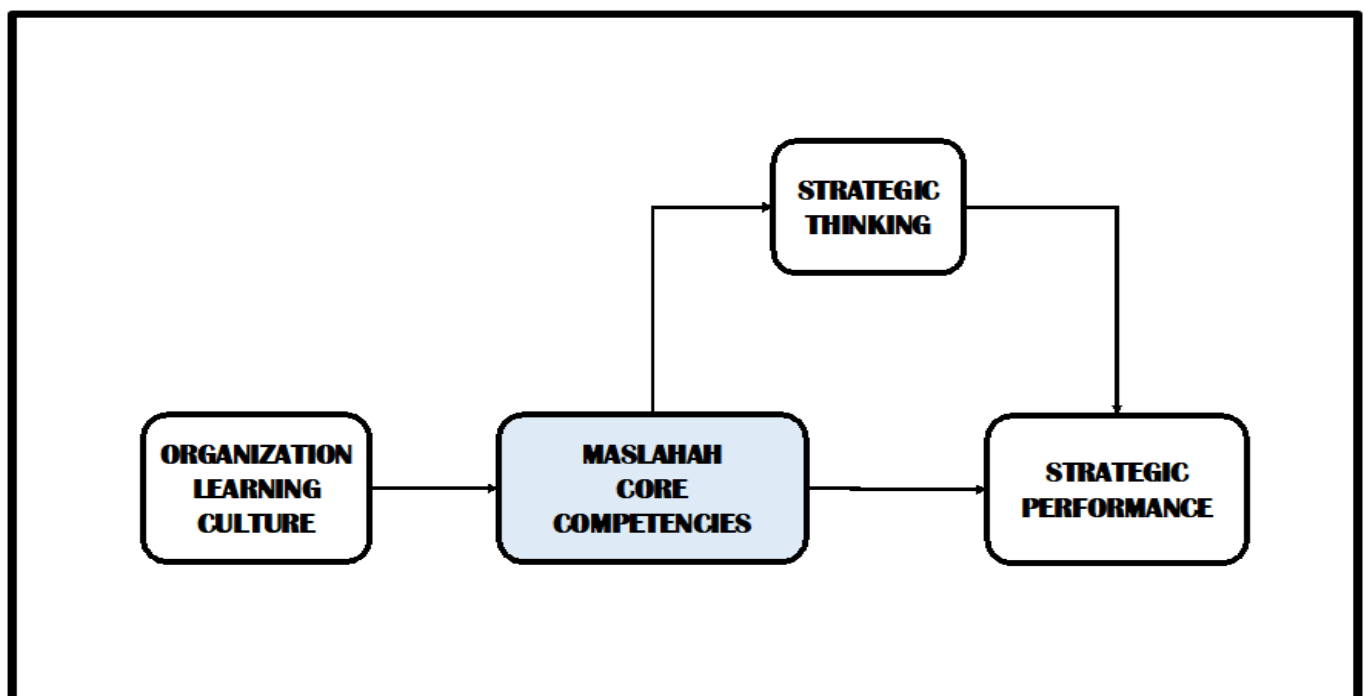


Figure 3: Basic Theoretical Model of Maslahah Core Competencies.

## 2.5. Future Research

Based on a complete and in-depth literature review, the future research is as follows: first, the basic theoretical model is needed, empirical testing is an interesting research area. Second, based on the research gap and core competency dimensions, empirical studies are needed.

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