

# STUDY ON IMPACT OF THE CORE COMPETENCY ON COMPETITIVE ADVANTAGE SPECIAL REFERENCE WITH ISLAMIC FINANCIAL INSTITUTIONS IN SRI LANKA

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## Introduction

Islamic financial institutions need to learn to manage tomorrow's opportunities as they manage today's financial businesses. Islamic financial institutions are a risky business and several risk factors such as credit, liquidity, operational and market risks have been identified as critical to ensure that the Islamic financial institution's financial position remain intact amid the intense competition in the industry. The new market development can be geared up by developing the capability to redeploy the human resources quickly from one business opportunity to another. Building core competence becomes essential to competitive advantage building to Islamic financial institutions. Especially in an era where advanced technologies are altering the existing boundaries of Islamic financial transactions; advantage can last only through competence enjoyed at the very roots of Islamic banking products. Only through expertise over several technologies and a complete command on their infinite variety of users, Islamic financial institutions can occupy a highly advantageous position. Islamic financial institutions' management needs to consolidate corporate - wide technologies and production skills into competencies that empower individual Islamic financial transactions to adapt quickly to changing Opportunities. The Islamic financial transactions need to build its strategies within different clear scenarios, in different ways, based on different competencies for the purposes of achieving real advantages in the shadow of unknown and risk. Therefore, this study examines the impact of core competencies on competitive advantage and it applied on Islamic financial institutions. The ultimate purpose of this study is to investigate the impact of core competencies on competitive advantage. The main objectives of this research are to examine the main categories of core competencies within the researched

institutions and to investigate the role of core competencies in achieving competitive advantage for the researched Islamic financial institutions.

## Purpose of the study

Basically, the lacks of academic research in Sri Lanka support whether or not a relationship between the core competencies and competitive advantage exists motivate the researchers to investigate this subject. Therefore, this research attempt to provide some clear points and empirical results to understand relationship between core competencies and competitive advantage; Following are the main objectives of this study:

1. To investigating the main categories of core competencies within the researched Islamic Financial Institutions.
2. To investigating the role of core competencies in achieving competitive advantage for the researched Islamic Financial Institutions.

## Research Questions

This study is concerned with answering the following questions:

1. What are the main categories of core competencies in the Sri Lankan Islamic Financial Institutions?
2. To what extent do the following dimensions of core competence (Unique Resources, Knowledge Systems, Capabilities, Facilities, and Processes) positively affect the achievement of competitive advantage in the Sri Lankan Islamic Financial Institutions?

## Literature Review

### *Core Competence*

Much of the research on competitive advantage focused on core competencies as a major source of that advantage, core competencies include the particular set of skills and resources an organization possesses as well as the way those resources are used to produce outcomes (Fiol, 2001).

The concept of core competence, as fundamental to organizational renewal and as a driving force behind strategic change, interests both managers and scholars. It is a complex and challenging concept: it is difficult to specify theoretically, to identify empirically as a phenomenon, and to apply in practice. Scholars have recently recognized these problems in general conceptual discussions (Hafsi and Thomas, 2005) and in core competence-specific empirical research (Wang et al., 2004).

Competencies are commonly agreed to reside in individuals and teams of individuals, implying that the competence concept involves a cumulative hierarchy. This cumulative hierarchy notion is evident in many streams of research concerning the associated concepts: i.e. single-, double-, and triple-loop learning, which are based on competencies, capabilities, and dynamic capabilities, respectively, according to Savory (2006). Another researcher has adopted similar notions of hierarchy: i.e. first-order competence, which comprises customer and technological competencies; integrative competence, which is the ability to combine the previous competencies; and second-order competence, which is the ability to create first-order competencies (Danneels, 2002). Scholars also distinguish between “distinctive competence” and “core distinctive competence” (Eden and Ackermann, 2000).

Core competencies are particular strengths relative to other organizations in the industry which provide the fundamental basis for the provision of added value. Core competencies are the collective learning in organizations, and involve how to coordinate diverse production skills and integrate multiple streams of technologies. It is communication, an involvement and a deep commitment to working across organizational boundaries. Few companies are likely to build world leadership in more than five or six fundamental competencies.

Hamel and Prahalad (1994) define core competence as a bundle of skills and technologies that enable a company to provide a particular benefit to customers. Core competencies are not product specific; they contribute to the competitiveness of a range of products or services. They are the roots of competitiveness and individual products and services are the fruit. A core competence is a tapestry woven from the threads of

distinct skills and technologies. A skill must meet three tests to be considered as a core competence, i.e., customer value, competitor differentiation, and extendibility.

An organizational core competency is an organization's strategic strength. It is what the organization does best and what it should never outsource. Organizational core competencies—the unique resources of an organization—affect many products and services and provide a competitive advantage in the marketplace (Johnson & Scholes, 2002).

### *Competitive Advantage*

Every organization is a victim of its own success, so there is a need of diversification, which creates a different mix of talents and capabilities. It must learn how to sustain competitive advantage it should protect itself from being despoiled and assimilate new sources of technologies, skills and core competencies.

Competitive advantage is at the heart of firm's performance. It is concerned with the interplay between the types of competitive advantage, i.e., cost, and differentiation, and the scope of the firm's activities. The value chain plays an important role in order to diagnose and enhance the competitive advantage. A sustainable competitive advantage creates some barriers that make imitation difficult. Without a sustainable competitive advantage, above average performance is usually a sign of harvesting (Porter, 1985).

Competitive advantage is, in very basic words, a position a firm occupies against its competitors. According to Michael Porter, the three methods for creating a sustainable competitive advantage are through:

1. Cost leadership - Cost advantage occurs when a firm delivers the same services as its competitors but at a lower cost.
2. Differentiation - Differentiation advantage occurs when a firm delivers greater services for the same price of its competitors. They are collectively known as positional advantages because they denote the firm's position in its industry as a leader in either superior services or cost.
3. Focus (economics) - A focused approach requires the firm to concentrate on a narrow, exclusive competitive segment (market niche), hoping to achieve a local rather than industry wide competitive advantage. There are cost focus seekers, who aim to obtain a local cost advantage over competition and differentiation focuser, who are looking for a local difference.

The secret of a sustainable competitive advantage lies in performing every step in the value chain in an

appropriate way. A competitive advantage essentially has to be one that not only merely represents better performance than that of its competitors, but also delivers genuine value to the customer, thus ensuring a dominant position in the market. The internal resources and capabilities of an organization play a very important role in building competitive advantage. The organizations that want to build competitive advantages, which cannot be eroded (no matter how much change is there in the environment), must make linkages between the advantage and the capabilities underlying it as impenetrable and as confusing as possible. Also the most important part of the competitive advantage stems from a capability that is impossible to replicate (Sinha, 1998).

To acquire competitive advantage in any market, a firm needs to be able to deliver a given set of customer benefits at lower costs than competitors, or provide customers with a bundle of benefits its rivals cannot match. To realize the potential that core competencies create, a company must also have the imagination to envision markets that do not yet exist and the ability to stake them out ahead of competition. A company will strive to create new competitive space only if it possesses an opportunity horizon that stretches far beyond the boundaries of its current businesses. This horizon identifies, in broad terms, the market territory the management hopes to stake out over the next decade, a terrain that is unlikely to be captured in anything as precise as a business plan (Hamel and Prahalad 1991; Porter 1980)

### Methodology

An empirical study was carried out which involved personal interview, questionnaire and secondary data materials. Questionnaires are dealing with affect of core competency on competitive advantage. Questionnaire is designed into three sections. First section is related with demographic information, second section is related with items measuring core competency and third section is related with items measuring competitive advantage for Islamic financial institutions.

The target population for this study comprised all the Islamic financial institutions in Sri Lanka. A sample of six (MCB Bank Limited, Amana Bank, LOLC- AL-Falaah, BOC - An-Noor, People's Leasing - AL Safa, Commercial Bank - Al Adalah) Islamic financial institutions were chosen randomly from the targeted population, 180 questionnaires were distributed. A simple random sampling technique is used to select the respondents surveyed for this study.

The reliability of data collected instrument was measured using Cronbach's alpha coefficient.

Descriptive techniques, percentages, means, Standard deviation, and Coefficient of variance (CV) were used

to describe the variables. Spearman correlation analysis among other statistical tools was used in testing the hypotheses. Statistical Package for Social Sciences (SPSS) 16.0 was used to analyze the data.

### Discussion and Findings

The mean, standard deviation, and coefficient of variation (CV) of the study questions related core competencies (independent variable) and the competitive advantage (dependent variable) are summarized in table (1) and table (2).

#### First: Core Competency

Table (1) shows the results that represent core competencies components, and it appeared as follow:

Table 1: The results of the Core Competence Components

Item	Mean	Std.	CV
Unique Resources	4.1	0.53	0.13
Knowledge-Based Systems	4.2	0.66	0.16
Capabilities	3.5	0.75	0.21
Facilities	2.3	0.95	0.41
Processes	3.9	0.73	0.19

Test of the mean value listed in Table (1) reveals that the most important items were: Knowledge-Based Systems (4.20), Unique Resources (4.10) and Processes (3.90). The less important items were: Facilities (2.30), and Capabilities (3.50).

#### Second: Competitive Advantage

Table (2) shows the result that describes the main items that represent competitive advantage, and it appeared as follow:

Table 2: The results of Competitive Advantage factors

Item	Mean	Std.	CV
Offering a better range of services	4.3	0.87	0.20
Improving the quality of your services	4.5	0.95	0.21
Making your services unique	4.0	0.88	0.22
Improving your quoting process	3.4	0.68	0.20
Educating your staff in areas like product knowledge and customer service	2.9	0.62	0.21
Having clear and simple lines of communication	3.9	0.77	0.19
Exceeding customer expectations	3.7	0.75	0.20

Based on mean value the results show that the most important items were: Improving the quality of your services (4.5), Offering a better range of services (4.3), making your service unique (4.0), The less important items in terms of mean value were: Educating your staff in areas like product knowledge and customer service (2.9), Improving your quoting process (3.4) and Exceeding customer expectations (3.7).

Table 3: Correlation of the Core Competence Components and Competitive Advantage

Competitive Advantage Core Competence	R	Sig. (2-Tailed)
Unique Resources	0.87	0.00
Knowledge-Based Systems	0.53	0.02
Capabilities	0.78	0.00
Facilities	0.57	0.07
Processes	0.82	0.00
<b>Core Competence</b>	<b>0.79</b>	<b>0.00</b>

The results of data analysis and hypotheses testing are summarized in Table 3. As seen in Table 3, the output indicates that there is a strong positive significant correlation at ( $P \leq 0.05$ ) between core competencies and competitive advantage, which implies that the higher the Islamic Financial Institutions in Sri Lanka interested in maximizing its competencies, the higher the opportunity to achieve competitive advantage at ( $r = 0.79$ ).

The overall results suggest that core competency is positively related to the competitive advantages to Islamic financial institutions. Based on the findings of this study, the impact of core competency on competitive advantage is recommended that there is a significant positive relationship between core competencies and competitive advantages from the sample point view. The study also showed that the core competencies had a significant impact on competitive advantage to Islamic financial institutions. Core competence dimensions are provided in high percentages with a mean receptively but the facilities are very low. There is significant statistical relationship between core competencies and competitive advantage at the confidence level.

### Implications and Conclusions

Utilizing the findings of this study can help Islamic financial institutions' managers make some of business environment changes that require the firm to be more flexible in order to respond effectively and efficiently to these changes. In other words, core competence dimensions facilitate the planning of operations strategy to enhance the competitive advantage of Islamic financial institutions. To put the findings of this study into Islamic financial institutions context, it could be concluded that Sri Lankan Islamic financial institutions

need to match competitive advantage with core competence dimensions in order to have the ability to consider core competencies when planning, implementing, and controlling the operations strategy of a firm that can achieve competitive advantage. Identify a list of Islamic Banking practices, Shari'ah principles, policies, and critical success factors that lead to achieving the real competitive advantage. The findings of this study have the following practical implications for Islamic financial institution's managers:

- The Sri Lankan Islamic financial institutions are highly encouraged to develop a clear strategy allow them to benefit more from their available unique resources and processes in order to improve its performance that will leads to achieve distinctive competitive advantage.
- Top management of the Sri Lankan Islamic financial institutions are invite to use several dimensions of core competencies in planning, setting, and achieving the real competitive advantage.
- Sri Lankan Islamic financial institutions are extremely encouraged to analyze the effect of core competencies on achieving organizational performance.

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