

Research on the construction mechanism of the core competence of Chinese enterprises in the transition period

Core
competence

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Abstract

Purpose – The past 40 years of reform and opening up have seen the role of core competence receive unprecedented attention because of the impact of the new normal economy as well as the pressure of transformation and upgrading. Few Chinese enterprises have effectively constructed core competence, and there is also a lack of strategic perspective and contextual embedding of its construction process in theory. This study aims to analyse the unique contextual characteristics of China in the transitional period and the impact on the core competence construction of Chinese enterprises and proposes its construction mechanism for Chinese enterprises.

Design/methodology/approach – Through theoretical deduction and speculation, this paper analyses the process of concept formation, clarifies the concept, analyses its connotations and structure and emphasises its relativity. Based on a review of the theoretical research on the core competence construction process and an analysis of dual contextual impact, this paper puts forward a mechanism for core competence construction.

Findings – The results reveal that four specific characteristics of entrepreneurs in balancing and coping with the dual nature of external context constitute the key driving force for a Chinese enterprises' core competence construction; under the influence of this driving force, the core competence construction mechanism includes process mode, knowledge source, management mode and key success factors.

Originality/value – Approaching it from a Chinese context, this study deepens the concept of core competence; enriches and develops the research related to the core strategic research proposition of its construction; and provides positive significance for Chinese enterprises to effectively build, develop and strengthen core competence and enhance their international competitiveness.

Keywords Core competence, Constructive mechanism, Strategic commitment, Transitional period

Paper type Research paper

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1. Introduction

Over the past 40 years of reform and opening up, Chinese enterprises have made tremendous progress; a number of enterprises with core competence have flourished in not only the Chinese domestic market but even the global markets. Faced with the impact of the “new normal” economy and the pressure of transformation and upgrading, the role of core competence of enterprises has been receiving unprecedented attention. It is imperative that more and more enterprises in China understand the concept and content of core competence as well as grasp the mechanism of effectively building, exerting and strengthening core competence from a Chinese context. From a theoretical level, existing literature presents some mature theories on the construction mechanism of core competence under the condition of complete market economy. These research results are not fully applicable to China; the research on the construction of core competence in Chinese enterprises focuses mainly on the verification of correlation with its pre-factors. This leads to the following three problems in understanding of the construction mechanism of core competence in Chinese enterprises.

At present, the understanding of the nature and characteristics of core competence is derived from the research of western management scholars in main. The research results that can achieve a consensus are mainly about the expression of the characteristics of core competence, but there is no unified view on the conceptual connotation and content structure of core competence. An overemphasis of the characteristics of core competence can mistakenly imply that core competence is an absolute or universal concept.

At present, research by Chinese scholars on core competence construction follows, in main, the perspective of organisational learning and knowledge management adopted by strategic management scholars in the west, focusing on the mechanism of the acquisition of knowledge and the ability of formation. The results obtained are relatively scattered and micro-scale, which is a hindrance to the research on the process of core competence construction, key factors and their mechanism.

At present, all research on core competence and its construction is based mainly on the west. Strategic management scholars of Chinese enterprises have not embedded the research on the construction of core competence in the Chinese context, which fails to reveal contextual factors and their mechanism that influence the effective construction of core competence in Chinese enterprises.

Faced with the above practical problems and theoretical research gaps, based on the review and theoretical speculation of existing literature, this study has conducted an in-depth analysis of the unique contextual characteristics of China in the transitional period. It has also looked at the impact on the construction of core competence in Chinese enterprises and has proposed the construction mechanism of core competence of Chinese enterprises in the transitional period.

2. An analysis of the concept origin and connotation of core competence

Whether it is in the field of strategic management theory or practice, core competence remains a vague concept (Foss and Knudsen, 1996; Li, 1999). In relation to this concept, there are presently many people who use it, but few understand it; there are many people who are aware of its characteristics, but only a few who grasp its content; more people understand the benefits, but less people are aware of the limitations. The current failure of Chinese enterprises in high diversification or large-span transformation and upgrading may be the result of this reality.

The concept of core competence was formally proposed by Prahalad and Hamel (1990), but the concept of heterogeneous resources, the core of resource-based theory, which

constitutes the source of competitive advantage of enterprises, has already revealed the implication of core competence to a large extent. In a sense, the implication of core competence is gradually being enriched and improved with the formation of the resource-based theory.

Concerns about heterogeneous resources within enterprises can be traced back to the concept of “distinctive competence” put forward by Selznick (1957). He stated that the unique ability of an organisation is the special factor that makes it better than others. Penrose (1959) uses heterogeneous resources to explain the acquisition and maintenance of competitive advantage. Although Chandler (1962), Ansoff (1965), Andrews (1971) and some other researchers on corporate strategy have continued the concept of unique competence, heterogeneous resources have not received widespread attention in the academic circles.

The industrial organisation view (IO) presented by Michael Porter in the 1980, states that the performance of an enterprise depends mainly on external factors, especially industrial attractiveness (Porter, 1980, 1985). However, Rumelt (1991) found that the difference in performance between companies in the industry is greater than that between different industries; this indicates that the factors that determine the performance of an enterprise are mainly from the competitive advantage within the enterprise.

In these circumstances, scholars began to turn their attention to heterogeneous resources within enterprises, thus the rise of resource-based theory. The term resource-based view (RBV) was formally introduced by Wernerfelt (1984); this states that the competitive advantage of enterprises comes from heterogeneous resources of valuable, rare, difficult-to-imitate and non-substitution. Following on the same lines, Grant (1991) further upgraded the RBV to the resource-based theory (RBT); Barney (1991) integrates the previous decentralised RBV into a comprehensive RBT and proposes that heterogeneous resources that can bring a competitive advantage should be valuable, rare, difficult-to-imitate and non-substitution (VRIN). Among them, heterogeneous resources with the first two characteristics can constitute a competitive advantage, whilst heterogeneous resources with all four characteristics can constitute to a sustainable competitive advantage. It was further summarised by Barney (2002), the characteristics of heterogeneous resources as valuable, rare, costly-to-imitate and organised-to-capture-value (VRIO). This comprises the costly-to-imitate, including the difficult-to-imitate and irreplaceability mentioned by Barney (1991), organised-to-capture-value, which is an organisational ability that can effectively integrate the valuable, rare and non-substitution rooted in more abstract resources such as business practices, workflow, corporate culture, etc. The potential of an enterprise to gain a competitive advantage depends on their valuable, rare, costly-to-imitate heterogeneous resources. However, to make these resources play a role and build a sustainable competitive advantage, it is necessary to integrate resources effectively.

Prahalad and Hamel (1990) defined core competence as cumulative knowledge in an organisation, specifically knowledge about how to coordinate production skills and integrate technologies. They emphasise that strategic choices of an enterprise should be matched with specific industries, business modes and competitive positioning, with the aim of building, developing and strengthening core competence. Teece *et al.* (1997) later put forward the theory of dynamic capability, emphasising that core competence needs to be integrated, established and reconfigured to adapt to the rapidly changing environment and avoid “core rigidity”. Nonaka (1991) puts forward the theory of knowledge innovation, knowledge, especially tacit knowledge as heterogeneous resources of an enterprise, emphasising that the foundation of core competence of an enterprise lies in the creation, storage and application of knowledge, especially tacit knowledge.

Reviewing the origin and evolution of the concept of core competence and its implications, the following judgements can be made:

- Firstly, core competence refers to the heterogeneous resources that can bring a competitive advantage to specific industries and business modes.
- Secondly, such heterogeneous resources should be VRIN, to constitute a key and sustainable competitive advantage.
- Thirdly, heterogeneous resource should be based on knowledge, especially tacit knowledge, and should manifest itself in the dynamic and effective integration of multiple heterogeneous resources.

Therefore, whether it is in theoretical research or in business management practices, the three important characteristics of core competence need further emphasis:

- (1) *Relativity*. Meaning core competence should be matched with specific industries, business methods and competitive positioning is the relativity of core competence (Prahalad and Hamel, 1990; Peteraf, 1993; Collis and Montgomery, 1995; Priem and Butler, 2001).
- (2) *Key and maintainability*. Core competence needs to be VRIN. The value and rarity illustrates the key of core competence (Barney, 1991, 2002; Hafeez *et al.*, 2002), whilst the difficulty-of-imitate and non-substitution illustrate the maintainability of core competence.
- (3) Based on the requirements of difficult learning, imitation and mutual reinforcement, core competence should be a dynamic and effective integration of knowledge-based heterogeneous resource capabilities with relative, critical and maintainable characteristics (Prahalad and Hamel, 1990; Barney, 1991, 2002; Hafeez *et al.*, 2002; Prahalad, 1993; Xu and Wang, 1999) reflects the comprehensive or organisational nature of core competence.

Based on the effective integration of these three characteristics, the concept of core competence can be defined as:

A comprehensive competitiveness matching the industry, mode of operation and competitive positioning chosen by an enterprise; it should stem from the dynamic and effective integration of a variety of knowledge-based, key and maintainable resources and capabilities.

Based on this working definition, we can understand the implications of core competence as the following three levels of content and their matching relationship:

- (1) *The first level is the strategic commitment of enterprises*. To build core competence, an enterprise should firstly make clear choices and firm commitments on its business objectives, business scope, business modes and competitive positioning; this is a requirement of the relativity of core competence. The clearer the choice and firm commitment of an enterprise to these important, long-term and overall strategic choices, the higher the effectiveness and efficiency of building core competence, the more accurately the boundaries of an enterprise's core competence can be grasped. In the context of fierce market competition, only by focusing and specialising can there be competence. According to Lan (2001), there can be no competence without specialisation.
- (2) *The second level is a variety of key and sustainable resource and capacity advantages*. Under the strategic commitment of enterprises, after long and

sustained investment and learning, enterprises have constructed a variety of resources and capability advantages. This has been done in combination with value, scarcity, difficult-to-imitate and irreplaceable characteristics, which is the key and maintainable requirement of core competence. Under the following circumstances, the competitiveness of this combination of resources and capabilities depends on:

- the matching degree between the combination of advantages and the strategic commitment of enterprises;
 - the quantity and quality of resources and capabilities advantages that constitute the combination of advantages; and
 - the integration degree of resources and capabilities advantages in the combination of advantages.
- (3) *The third level is the integration mechanism of resource and capability advantages.* In the process of building, exerting and strengthening key and sustainable competitive advantages, enterprises will constantly construct, renew and iterate the governance structure, as well as organisational structure, management mechanism and corporate culture that match certain key competitive advantages (Wernerfelt, 1995). Finally, an integrated mechanism that matches a dynamic maintenance and superiority combination will be formed so that each of them can be matched. A key and maintainable resource and capacity advantage can be brought into play and strengthen the integration (Xu and Xu, 2002); this is a comprehensive or organisational requirement of core competence.

3. General logic of core competence construction

Although the issues related to the construction of core competence have been highly valued by scholars of enterprise strategic management (Javidan, 1998; Luo and Sun, 2013), most of the previous studies have bypassed the concept of “core competence” and have focused directly on a more “fundamental problem” of competitive advantage. In fact, the ultimate proposition on the whole subject of strategic management is the same: “Where does the competitive advantage come from?” (Mintzberg *et al.*, 2009). Therefore, these studies cannot be strictly included in the scope of research of the core competence construction mechanism.

Prahalad and Hamel (1990) initially defined core competence as “collective learning in the organisation, especially on how to coordinate diverse production skills and integrate multiple streams of technologies”. It was also proposed that core competence consists of tacit knowledge and explicit knowledge (Hamel and Heene, 1994). Therefore, research on the process or mechanism of core competence formation, choosing the perspective of organisational learning, focusing on the impact of knowledge management on the construction of core competence (Lei *et al.*, 1996; Elfring and Baven, 1996). From the perspective of organisational learning, the construction of core competence is a process of “learning by doing”. The general process of organisational learning, i.e. the acquisition of knowledge, processing, storage and application, can improve the core competence of enterprises (Helleloid and Simonin, 1994). Further research by Andreu and Ciborra (1996) states that the construction of core competence lies in the three learning loops of organisational learning (i.e. routinisation loop, capability loop and strategic loop). By linking closely with each other, organisational resources form a work routine leading to organisational competence and ultimately to core competence. From the perspective of knowledge management, the formation of core competence is a process of interaction and

transformation between explicit and tacit knowledge. In this process, the four dimensions of the knowledge system (skill and knowledge base, technical systems, managerial systems and value-and-norms) are utilised. This makes the transfer and sharing of knowledge, integration and innovation both inside and outside the organisation a spiral of knowledge through socialisation, externalisation, combination and internalisation (SECI) (Nonaka and Takeuchi, 1995). Core competence could be promoted through continuously updating (Leonard-Barton, 1992).

With further developments in the concept of core competence to the concept of dynamic capability (which can be regarded as dynamic core competence), the theoretical circles have shifted their focus from knowledge management to knowledge innovation, thus putting forward the so-called “learning by doing” and “dual learning” theories (March, 1991). As can be seen, the above two types of core competence construction mechanism studies seem to deviate from the key characteristics of core competence. Lei *et al.* (1996) put forward an integrated model of organisational meta-learning to develop and generate dynamic core competence, pointing out that an organisation forms a high level of the meta-learning process through three subsystems: transfer of information and retrieval, experimentation and dynamic routines and dynamic development of the ability to define and solve complex organisational problems, i.e. dynamic core competence. Chinese scholars have developed this logic even further, pointing out that the construction of dynamic core competence also depends on the interactive learning between an enterprise and external environment, that is, meta-learning should also integrate and coordinate the learning subsystems of “environmental review” and “benchmarking” (Wang and Wu, 2007).

From the perspective of organisational learning, the research on core competence construction reveals mainly the mechanism of knowledge formation, use, integration and innovation and pushes the process of core competence construction to a more peripheral and micro level. Since the end of 1990s, some strategic scholars have begun to do more ontological and macro-research on the construction of core competence from the perspective of enterprise strategy, based on the key characteristics of core competence. Based on the comprehensive understanding of core competence, Raffa and Zollo (1996) indicated that core competence is an organisational ability that organically integrates skills, resources and mechanisms.

The formation process of core competence of an enterprise manifests itself in the creation of new resources or the changes in the composition of resources in the process of interaction and matching between the enterprise and the environment, to gain an obvious competitive advantage in the existing market or new market (Brocklesby and Campbell-Hunt, 2004). Luo *et al.* (2015) put forward the theory of “integration”, which believes that Chinese enterprises can creatively utilise integration, which includes composition, collaboration, combination and conformity. Doing this means that they can gain a competitive advantage or make up for a competitive disadvantage, to create a rapid response to the mass market with a cost-effective performance and other unique competitive advantages, as well as building core competence.

Although the above studies make up for the deficiencies in the process of core competence construction from a certain point of view, there are still some blanks in the study on the relativity of core competence and the role of strategic commitment in the construction process, and the study of the mechanism of core competence construction lacks the exploration based on the Chinese context.

4. Key driving factors of enterprise core competence construction in Chinese context

The unique context embedded by Chinese enterprises has been widely recognised by scholars both at home and abroad (Hoskisson *et al.*, 2000; Lan, 2012). The question of – “is it

more difficult for Chinese enterprises to build core competence than those of western developed countries?" is answered negatively by foreign scholars. They are either surprised or shocked that China can develop a group of enterprises with core competence even in the global market in such a short time (Zeng and Williamson, 2007). However, domestic scholars answer this question positively and are not happy about the fact that only a few enterprises with core competence have been trained since China's reform and opening up (Lan, 2012). This seemingly opposite judgement reveals a very interesting problem: A Chinese enterprise can build core competence very quickly; quite a few Chinese enterprises even acquiring some multinational enterprises in a manner of "snake swallows elephant" or "civilians marry princess", but there are not many Chinese enterprises that have core competence, even those that have entered the "Fortune 500". To explain this phenomenon, this paper argues that there is a need to further understand the particularity of Chinese context, analyse the impact of this particularity on the construction of core competence of Chinese enterprises, thereby revealing the key driving factors for a small number of Chinese enterprises to effectively build core competence.

4.1 The uniqueness of the context embedded in Chinese enterprises

Previous studies have shown that the contextual characteristics of a country or a specific region are composed of: environmental characteristics, organisational characteristics and human characteristics of the country or a specific region and their interactions (Child, 2000, 2009). The past 40 years have seen China promoting a transformation in the economic development mode and the economic system in a gradual, decentralised and experimental way (Lin *et al.*, 2014), along with the transformation of the economic development mode from a traditional agricultural society to a modern industrialised society, releasing a large number of industrial development opportunities. The transformation of the economic system is from being relatively closed to relatively open, from planned economy to market economy, also releasing a large number of institutional dividends (Lin *et al.*, 2014). Entrenched in this context or context evolution, Chinese economic development has made visible achievements depending on huge institutional dividends, demographic dividends and industrial development opportunities. In regard to the "miracle of China's economic development", scholars both domestic and foreign of economics and strategic management of enterprise have carried out active research from different perspectives. Strategic management scholars focus on the unique context in China and its impact on the strategic behaviour of an enterprise. According to the study by Davies and Walters (2004) and Lan *et al.* (2012), they have reached a relatively consistent view in the following three aspects. Firstly, in regard to environmental characteristics, China is the largest emerging market in the world, a transitional economy with the fastest economic development and an ever-increasing level of market openness. Secondly, with regard to organisational characteristics, China has a large number of enterprises with a mixture of different ownership systems. These enterprises have not been established for a long and do not have a very high level of corporate governance and management. However, they are developing rapidly and operating vigorously, which results in a competitive interactive environment in Chinese enterprises and having differing characteristics than more mature economies. Thirdly, in regard to human characteristics, entrepreneurs in China are still in the embryonic stage of development. Although the overall cultural level of entrepreneurs and strategic managers of enterprises is not high, they have a strong sense of adaptability, learning ability and the ability to innovate.

4.2 The impact of Chinese context uniqueness on the effective construction of core competence by Chinese enterprises

Studies show that the unique context in China has a dual effect on the effective construction of core competence in a Chinese enterprise. The beneficial effects amongst them are manifested mainly in the following two aspects. Firstly, compared with enterprises in developed countries, Chinese enterprises are more likely to generate and maintain the momentum in development. Over the past 40 years, China's market has been continuously open, institution and institutional reforms have been deepening, consumer demand has been escalating and market competition has become increasingly fierce. The Chinese government has, at all levels, continued to promote local economic development directly and actively and has entered the market directly to assume their roles. Therefore, as seen in the past 40 years, as long as Chinese enterprises want to "survive" and develop, there will be no lack of development momentum. Secondly, compared with enterprises in other developing countries, Chinese enterprises have a large market size, strong market attraction and a high degree of openness, which makes it easier for them to continuously acquire new knowledge and improve their capabilities. China has continuously attracted foreign capital, technology, management skills and talents in the past 40 years, by relying specifically on the three kinds of country-specific advantages, i.e. factor conditions, matching conditions and market conditions. Chinese enterprises have actively been participating in the division of labour in the global value chain and continuously expanding and deepening with the cooperation between upstream and downstream enterprises in different countries of the world. With the opening of the domestic market, rising of market condition advantages and competitive position, Chinese enterprises now find it relatively easier to acquire the knowledge needed to build core competence than in the past.

The negative effects of the particularity of the Chinese context on the construction of core competence in Chinese enterprises is manifested mainly in the following aspects. Firstly, enterprises in China lack any kind of incentive to transform the motivational force of development in the construction of core competence. In the transitional period, China's market economic system and mechanism are incomplete, the positive correlation between core competence and enterprise economic performance is not obvious and stable and the phenomenon of bad currency driving out good money is still prevalent. Secondly, Chinese enterprises are facing enormous challenges in selecting clear choices and strategic commitments; therefore, it becomes difficult to effectively build core competence through resource concentration and sustained investment. In the case of an imperfect market economic system and mechanism, enterprises that insist on clear choices and firm strategic commitments may not only face greater operational risks and difficulties in horizontal integration, but also miss out on a large number of opportunities in new developments in industry and government preferential policies. Thirdly, Chinese enterprises are prone to deviate from the market judgement in identifying and choosing the areas of core competitive advantage, as the Chinese government still plays an important role in the allocation of key resources, and the government still intervenes relatively directly in the market.

4.3 The key driving factors to effectively coping with the impact of the Chinese context particularity

Based on the duality of the impact of Chinese context uniqueness on the effective construction of core competence of Chinese enterprises in the transitional period, this paper argues that it is important to find the law of the dual impact of Chinese enterprises' balance and extract the key driving factors. According to the case study of some enterprises with core competence in China (Lan *et al.*, 2013), all of the case

enterprises have a series of characteristics, which enables them to effectively utilise the favourable impact of the Chinese context and effectively prevent its adverse impact. These characteristics do not come from the unique institutional status of the enterprise (Li and Zhang, 2009), nor from the corporate governance structure (Liu, 2003), but rather from the entrepreneurs who have special value orientation or quality and the top management team of the enterprise they lead. These characteristics are as follows:

- *Career first.* Generally speaking, the ultimate aim of an enterprise is to maximise the profits of shareholders or the interests of stakeholders. To effectively achieve the fundamental purpose of the enterprise, some Chinese entrepreneurs and their top management team have chosen “career first” (Zhang and Sheng, 2014), whilst some may choose “wealth” or “scale first”, etc. In the practice of strategic management in China, entrepreneurs who choose “career first” and their top management team are more likely to transform the development power into the power of core competence construction. They are more likely to adhere to the strategic commitment of enterprises in the face of temptations and difficulties. They are also more likely to have a better grasp on development trends in the industry, identify key links and allocate resources on time and accurately. They are more likely to build value networks around the main industries and enhance the position of enterprises in the global value chain and more likely to acquire relevant knowledge enhancing the required capabilities.
- *Customer-oriented.* The survival and development of an enterprise cannot be separated from the understanding, identification and support of various stakeholders. Faced with various stakeholder groups, some entrepreneurs and their top management teams become customer-oriented, believing that only by satisfying the interests of customers can they satisfy the interests of other stakeholders. Some may focus on shareholders, employees and, of course, the government, but in strategic decision-making, priority should be given to satisfying the interests of shareholders, employees or the government. In the practice of strategic management in China, entrepreneurs and their top management teams who are “customer-oriented” are more likely to be closer to the market. They will also have a good grasp of the changes in customer needs and consumption patterns providing them on time and accurately. They are able to identify key value creation links and be more willing and dare to allocate resources “paranoidly” and energy and build a variety of key competitive advantages successfully.
- *Pay close attention to overcome shortcomings.* Whether in western countries or in China, “seeking advantages and avoiding disadvantages, developing strengths and avoiding weaknesses” is an old and universally applicable law that effectively guides the strategic decision-making of enterprises. In the process of enterprise strategic decision-making, some entrepreneurs and their top management teams focus more attention on how to overcome the shortcomings and weaknesses of the enterprise and devote themselves to actively identifying and solving problems. They firmly believe that finding problems means discovering opportunities for the progress of an enterprise, and solving problems is to change any disadvantages into advantages. Whilst some are more concerned about how to make full use of the advantages and strengths of the enterprise, remaining are committed to grasping more opportunities by giving full attention to their advantages and strengths. In the practice of strategic management in Chinese enterprises, entrepreneurs and their top management teams who focus on the shortcomings are more likely to find the

“potential growth point” and “inflection point” of the market. They can also identify the changes in key success factors and treat their own advantages with the attitude of “self-destruction and self-renewal” or “creative negation of oneself”. They prefer to change the allocation of resources and energy to turn the weaknesses into strengths, disadvantages into advantages, as it is easier to build key competitive advantages continuously and repeatedly.

- *Dare to fulfil the responsibility.* During the transitional period, enterprises in China will bear tremendous pressures from various departments in the process of building core competence, some of which originate from the unique institutional arrangements and influences of China (Lan *et al.*, 2010). For example, the pressure of slow-scale growth, low social awareness, difficulty in obtaining preferential policies from the government and the pressure of local governments not wanting enterprises to operate across regions, all of these pressures are of Chinese characteristics.

To sum up, the above four characteristics of Chinese entrepreneurs are the key driving factors for the effective construction of core competence in Chinese unique context. These key driving factors enable Chinese enterprises to balance the dual impact of China’s unique context and explore a unique mechanism for the construction of core competence of Chinese enterprises.

5. Construction mechanism of core competence of Chinese enterprises in the transitional period

Based on the author’s long-term follow-up study on Chinese enterprises (Lan *et al.*, 2013), research on the construction mechanism of core competence of Chinese enterprises in the transitional period should be based on the dual influence of Chinese context uniqueness, and the four characteristics of Chinese entrepreneurs as the main driving factors, from process mode, knowledge source and management mode to reveal the key success factors.

5.1 The logical process of building core competence in Chinese enterprises

Based on the understanding of the conceptual characteristics, content system and case studies of core competence construction in a few Chinese enterprises, we find that the process of core competence construction in Chinese enterprises includes the following three logically related activities: the formulation and adherence of strategic commitments, the construction and the integration of multiple key and sustainable competitive advantages. The fundamental reason why most Chinese enterprises find it difficult to effectively build, develop and strengthen core competence is that these enterprises ignore the relativity of core competence; therefore, they cannot maintain clear strategic choices and firm commitments in the whole process of building core competence in terms of business objectives, business scope, business modes and competitive positioning.

The first stage: *The formulation and adherence of strategic commitments.* Effective construction of core competence requires enterprises to make clear and firm strategic commitments in terms of business objectives, scope, mode of operation and competitive positioning. Only by formulating a work plan, on what to do and how to do it, can enterprises grasp the key links of the value chain in practice and identify which links resources and energies need continuous concentration. Only by dynamic transformation can we build a key and sustainable competitive advantage. There are two ways for Chinese enterprises to make and adhere to their strategic commitments:

- (1) “Intentionally planting flowers” mode. Enterprises that adopt this mode have made clear and firm strategic commitments since their inception, which then systematically build competitive advantages related to core competence around the realisation of these commitments.
- (2) “Untended inserting willows first, and intentionally planting flowers after” mode. Firstly, the enterprises that adopt this mode construct several competitive advantages according to different business purposes, modes of operation and competitive positioning at different stages of development. Secondly, according to a correlation of the above advantages, it further clarifies the strategic commitment of enterprises.

It also begins to allocate resources and energy to the key value creation environment and build core competence under the constraints of strategic commitment (Lan, 2007). For example, after running 17 products that are not directly related, the Midea Group finally chose to make household appliances based on its own advantages. Case studies show that the vast majority of Chinese enterprises that can effectively build core competence actually adopt the second mode. This verifies to some extent, the “learning by doing” mode of core competence construction proposed from the perspective of organisational learning theory (Elfring and Baven, 1996). However, the unique feature of this mechanism of Chinese enterprises is that this is not only a process. The result driven by environmental dynamics and complexity is the process of interaction between enterprises and external institutional factors. However, the unique feature of this mechanism of Chinese enterprises is that this process is not only the result of environmental dynamics and complexity, but also the process of interaction between enterprises and external institutional factors.

The second stage: *The construction of multiple key and sustainable competitive advantages*. At this stage, the construction of multiple key and sustainable competitive advantages is achieved primarily through multi-cycle allocation and iteration of resources and capabilities. Enterprises experience one or more transformations, repeated and continuous allocation of resource and energy allocation to key value creation links, thus to build a variety of key resource and sustainable capacity advantages. The process of building a variety of key and sustainable competitive advantages includes, at least logically, the following activities:

- *A key resource and capacity advantage building*. To effectively build a key capability advantage, Chinese enterprises need at least three successive strategic actions: an understanding of the scope of the industry, the mode of operation and the position of competition. This helps the enterprise to identify key value creation links more timely and accurately than its competitors. This allows the enterprise to invest resources and energy into these key value creation links more timely and “paranoidly” than its competitors. This also results in the enterprise grasping the approaches on formation of resources and capacity advantages more timely and effectively than its competitors.
- Construction of multiple key resources and capability advantages. Although from the point of view of simple reasoning, enterprises that can build a key competitive advantage should be able to build multiple key competitive advantages, yet, from the actual context, the process of building core competence in the majority of Chinese enterprises is often interrupted after building one or two key sustainable competitive advantages: the “paranoia” of constructing a key competitive advantage and the probable “path dependence” formed by its management mode

(Collis, 1991; Winter, 1987); these seriously restrict the identification of another key value creation link, transformation of the allocation of resources and energy, and adjustment of the original management mode. Therefore, the key to effectively building a variety of resources and capabilities and to form a combination of advantages lies in the dynamic core competence or dynamic capabilities of enterprises (Teece *et al.*, 1997). This ability is embodied in: whether an enterprise can grasp market changes in a more timely manner than its competitors and correctly judge the next key competitive advantage links; whether it can grasp the opportunity to change resources and energies more appropriately than its competitors; whether it can be better at recognising its success in the attitude of “self-destruction and self-renewal” to get rid of “path dependence” than its competitors (Davies and Walters, 2004; Chen, 1996); and whether it can maintain its own strategic commitment in multiple resources and energy allocation shifts. It is precisely because of the influence of “path dependence” we find that adopting the mode “untended inserting willows first, and intentionally planting flowers after” will be more conducive for enterprises to effectively cope with the challenges faced in the process of building a variety of key and sustainable competitive advantages.

5.2 Effective acquisition of knowledge is needed to build key competitive advantages

Even if an enterprise decides to allocate sufficient resources and energy to a key link of value creation at the right point of time, it cannot effectively build a competitive advantage without sufficient professional knowledge and ability. Therefore, another difficulty in the process of building core competence is the ability of good learning, and effective acquisition of knowledge must be resolved by the enterprise (Slater, 1996). Existing research results are relatively abundant and detailed on the problem that enterprises need to build professional knowledge and learning ability matching their advantage portfolio and to build composite ability (Luo *et al.*, 2015; Luo and Child, 2015) on how enterprises can effectively acquire knowledge and enhance their capabilities.

China is not only the world’s largest consumer market, but also a global manufacturing power. China’s opening up and cooperation are very conducive to Chinese enterprises to acquire new knowledge and enhance their capabilities. Based on the case study on the building of core competence of private manufacturing enterprises in China, we find that the social network embedded by enterprises and their position in the network largely determines the knowledge acquisition and learning ability of an enterprise. The more clearly and firmly that the enterprises are committed, the more likely they are to obtain relative knowledge and ability needed when constructing core competence through cooperation with upstream and downstream enterprises at home and abroad.

5.3 Construct a management mode that can effectively integrate multiple key competitive advantages

To effectively construct a key competitive advantage, enterprises not only need to allocate resources and energy “paranoidly” to specific value creation links, or to acquire and accumulate relevant knowledge and capability, but also need to design, run and optimise a set of high-level management modes, i.e. corporate governance, organisational structure, management mechanism, corporate culture, etc. (Pitts and Lei, 1996).

To effectively construct a variety of key competitive advantage combinations, enterprises need to not only change: the key links of resource and energy allocation as well as the composition of knowledge and ability, they also need to adjust, run-in and iterate

dynamically and continuously in corporate governance, organisational structure, management mechanism and corporate culture. In particular, considering that corporate governance, organisational structure, management mechanism and corporate culture are the organisational resources proposed by Penrose (1959), which cannot be traded, hard to imitated and learned, the adjustment, running-in and iteration of them are more difficult than the transformation of resources and energy allocation, composition of knowledge and ability. However, once a management mode matching multiple key competitive advantage combination is formed, the combined benefits of multiple key competitive advantages will be maximised, that is, each key competitive advantage will be maximised and strengthened in the combination, and the difficulty to imitate and learn as well as organisational inertia will be increased accordingly.

5.4 Key success factors

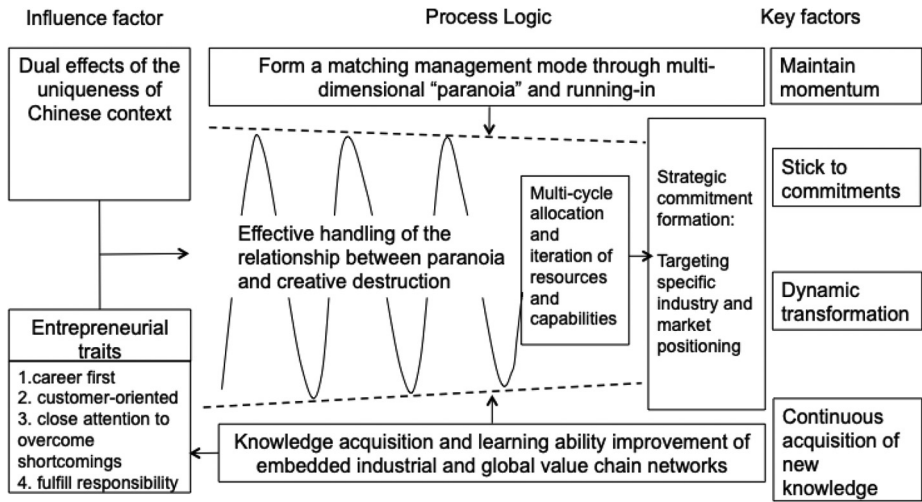
Embedded in the unique context of China, Chinese enterprises are facing various challenges in the process of building, developing and strengthening core competence. Whether the following four challenges can be effectively addressed will be the key success factors for Chinese enterprises in effectively building core competence. These four key factors are:

- (1) *maintaining momentum*, how to maintain the momentum needed to build core competence in the long run in response to external and internal challenges;
- (2) *adhere to commitment*, how to maintain the strategic commitment of enterprises in the process of multiple shifts in the allocation of resources and energy, neither miss any development opportunities nor violate the strategic commitment;
- (3) *dynamic transformation*, how to grasp key value creation links repeatedly and continuously. This can not only ensure correct “paranoia” is achieved each time when building a key competitive advantage, but can also “self-destruct and self-renew” without losing time and opportunity to build a variety of key competitive advantages continuously; and
- (4) a continuation in knowledge acquisition and improvement in learning abilities, how to effectively acquire relevant knowledge and ability based on the need to effectively build a variety of key and sustainable advantages.

Faced with the dual influence of the unique context of China, whether an enterprise can effectively challenge the above four aspects at different stages of the process of building core competence depends on whether the entrepreneurs of the enterprise and the strategic management team they lead, possess the four key characteristics mentioned above.

In summary, this paper puts forward a logical thinking of the construction mechanism of core competence of Chinese enterprises in the transitional period (as shown in Figure 1). In the process of effective building of core competence, clear choices and firm commitments are the logical premise and fundamental guarantee for the effectiveness of the whole mechanism. This is because core competence is a relative concept, without “specialisation”, there would be no “competence”, and without “specialisation”, core competence becomes the core obstacle. Effective allocation and dynamic transformation of resources and energy are the main ways to construct a variety of key and sustainable competitive advantage combination, without resources and energy correctly and “paranoidly” allocation, it is impossible to build a key competitive advantage in a fiercely competitive market, without the integration of multiple key competitive advantages, the key competitive advantages will be easy to be imitated and replaced. The dynamic and continuous adjustment, running-in and iteration of structure, mechanism and culture are the main methods to construct a

Figure 1.
The construction mechanism of core competence of Chinese enterprises in the transitional period



matching management mode. This will not only increase the maintainability of core competence, but also give full play to the comprehensive competitiveness of core competence. The embedding of global value chain network and the upgrading of its positioning are the main ways for enterprises to acquire knowledge and improve their learning ability. Continuous improvement of the level of embedding network will enable enterprises to dynamically acquire relevant knowledge and capabilities. The unique context of Chinese enterprises embedded will have a dual impact on the effective construction of core competence, and Chinese enterprises will face four key challenges in the process of building core competence. In the process of overcoming the four key challenges mentioned above, the four characteristics of entrepreneurs will help enterprises effectively utilise the favourable influence of the context and resolve the adverse influence and become the key driving factors for Chinese enterprises to effectively build core competence.

6. Conclusion

On the basis of clarifying the concept of core competence and reviewing the process of building core competence in the theoretical realm, this paper proposes that the construction mechanism of core competence of Chinese enterprises conforms to the general logic of theory and has its own characteristics. This Chinese context particularity has dual effects on the construction of core competence in Chinese enterprises.

To cope with and balance the impact of the context, the four characteristics of Chinese entrepreneurs have become the key driving factors in the process of building core competence to effectively cope with the impact of the particularity of Chinese context. They are career first, customer-oriented, concern for overcoming shortcomings and dare to fulfil responsibilities. Driven by these four characteristics of entrepreneurship, the construction of core competence of Chinese enterprises in the transitional period has formed a unique mechanism, especially from the aspect of process mode, knowledge source and management mode. Therefore, this study is putting forward a logical approach on the construction mechanism of core competence of Chinese enterprises in the transitional period.

This paper finds that core competence is matched with the industry, mode of operation and competitive positioning chosen by an enterprise, is derived from the comprehensive

competitiveness generated by the dynamic and effective integration of a variety of knowledge-based, key and maintainable resources and capabilities. Whether from the content structure of core competence or from the process logic of building core competence, maintaining of the enterprises industry scope, the consistency and continuity of business mode and competitive positioning are the premise of effectively building and strengthening core competence. In a relatively dynamic and complex environment, the process of building core competence is not exactly a process of strictly following previous plans, but a process of dynamic learning, dynamic transformation of resource allocation and dynamic integration. Maintaining momentum, sticking to commitments, dynamic transformation and continuous learning are the key success factors to build core competence and also the biggest challenge that strategic managers may face. Entrenched in the unique context of China in the transitional period, Chinese enterprises have both advantages and disadvantages in dealing with the duality. Whether the favourable conditions can be effectively utilised and the unfavourable factors can be successfully solved will largely depend on whether the entrepreneurs and the strategic managers they lead have specific value orientation or quality characteristics.

Based on theoretical deduction and speculation, this study proposes the construction mechanism of core competence of Chinese enterprises in the transitional period. Possible theoretical contributions could be as follows. First of all, the concept of core competence is further analysed, and the characteristics of the concept of core competence are put forward. Among the four characteristics of relativity, key, maintainability and comprehensiveness, relativity is an innovative interpretation. On this basis, three levels of implication of the concept of core competence are put forward, deepening the existing core competence, and this theoretical explanation deepens the existing concept of core competence. In addition, in view of the lack of strategic macro perspective and the entrenched Chinese context exploration in the current research on the process of core competence construction, this paper, based on the analysis of the dual impact of Chinese context, reveals the role of four entrepreneurship characteristics in effectively building core competence and presents the mechanism of building core competence of Chinese enterprises. It includes process mode, knowledge source, management mode and key success factors, which make up the gap in existing research and develop the related research on core strategic research proposition of core competence. Future research can develop the scale for the concepts of Chinese entrepreneurship traits and four key success factors and carry out specific practical research.

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