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The constituents of core competencies and firm performance: evidence from high-technology firms in china

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Abstract

This paper, unlike previous studies, focuses on the decomposition of impacts of core competencies on firm performance and the moderating effects of environmental turbulence on the basis of developing structural equation models using the partial least square (PLS) method. By taking a disaggregated approach, the decomposed effects of core competencies on firm performance are examined and the relative influences of all three major constituents of core competencies, marketing competencies, technological competencies and integrative competencies, are studied. Furthermore, this approach helps to avoid the so-called “pitfall” of being vague, tautological, endlessly recursive, and non-operational, for which some studies based on a resource-based view have been criticized. All three constituents are found to have significant influences on firm performance. And these relationships are moderated significantly by environmental turbulence such as market turbulence and technological turbulence, except that market turbulence is found to have no significant moderating effect on the relationship between integrative competencies and firm performance.

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Keywords: Core competencies; Firm performance; High-technology; Environmental turbulence

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1. Introduction

With the increasingly dynamic and turbulent nature of competition, there is a strong tendency to understand firms in terms of the efficient use of unique capabilities that create sustained performance differentials within industries. This makes the development of more effective methods for managing knowledge and other intangible resources a central concern of contemporary strategic management. Consequently, the resource-based view and related contributions have won increasing attention from both academic and practical circles (Wernerfelt and Montgomery, 1988; Prahalad and Hamel, 1990; Snow and Hrebiniak, 1980; Durand, 1999; Barney, 1986, 1991; Teece et al., 1997; King and Zeithaml, 2001; Duysters and Hagedoorn, 2000; Eisenhardt and Martin, 2000).

However, few empirical studies have tried to differentiate the various sources of superior firm performance in terms of different elements of core competencies, and the relationships between major constituents of core competencies and firm performance need more extensive in-depth studies. In fact, few empirical studies can be found that examine the major constituents of core competencies and their differentiated influences on overall firm performance that integrates the perspectives of finance, marketing and internal processes. Furthermore, relationships among core competencies, environmental turbulence and firm performance remain an unresolved conundrum, with little empirical research done to see how environmental turbulence moderates the influences of core competencies on firm performance. Such research is urgently needed to achieve an in-depth understanding of how and why core competencies contribute to firm performance in contingent contexts; even more in order to adapt quickly and effectively to the increasingly changing nature of both internal and external business environments.

Unlike most previous studies, which are conducted at either overall or functional level, this study aims at bridging the research gaps by taking a disaggregated approach via an empirical investigation of major constituents of core competencies and firm performance in high-technology firms in China. It draws on a growing body of literature on the resource-based theory and other highly related findings (Snow and Hrebiniak, 1980; Hitt and Ireland, 1985; Barney, 1991; Henderson and Cockburn, 1994; Markides and Williamson, 1996). At the same time, we seek to identify the key drivers behind differences in firm performance by understanding the differences among firms in terms of major constituents of core competencies, rather than by considering industry effects. And we also make a great effort to interpret such differences in firm performance as stemming from a variety of sources of rents accruing to firms, which are themselves affected by differences in the control and management of strategic resources (Winter, 1987, 1995), especially core competencies.

We hope to make at least four contributions to the research by means of this paper. First, we explore innovatively the major constituents of core competencies based on a comprehensive literature review and in-depth manager interviews. We then decompose the core competencies of a firm into three major constituents in order to avoid the so-called “pitfall” of being vague, tautological, endlessly recursive, and non-operational, for which some studies have been criticized (e.g. Mosakowski and McKelvey, 1997; Priem and Butler, 2001a, 2001b; Williamson, 1999). These constituents are marketing competencies,

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