



www.mbawinner.com

This work is the sole property of MBA Winner. No parts of it are allowed to be copied or distributed in any form and without getting written consent from MBA Winner.

All rights reserved

MBA ASSIGNMENT

Corporate Strategy

Critical Review of the article:

Prahalad, C. K. and Hamel, G. (1990) *The Core Competence of the Corporation*. *Harvard Business Review*, Issue: May-June, pp.79-91

1. Introduction

The aim of this assignment is to provide an explorative discussion on the article by Prahalad and Hamel (1990). The overall argument of the essay relates to the discussion on core competencies as a hybrid approach to strategy that makes use of the prescriptive/design school, but which nevertheless seeks to advance an entrepreneurial and innovative edge to it that is more often found in the emergent approach to strategy (Mintzberg et. al. 1998).

2. The article in the current debate

The design or prescriptive approach to strategy as argued by Selznick (1957) Chandler (1962) and Porter (1980, 1985, 1986, 1990) Ansoff and McDonald (1990) argues for sequential development of strategy where the organisation tries to find an optimal position of 'fit' with the environment. The assumption is made for how an organisation depends on the instrumental manipulation of its resources against the threats or opportunities of the environment for achieving a competitive edge (Lidtka, 2000; Collins and Porras, 2001). The realisation of the corporate objectives becomes an issue that emerges from the senior management concerned with the organisation's place of position in the wider market (Hamel, 1996).

A corporate vision is realised and communicated to the lower levels of the organisation whose role is to assist towards its implementation (Johnson *et al.* 2008; Goold, 1996). An organisation is able to realise its strategy when there is an effective coordination between those responsible for sustaining a specific vision with those coordinating the successful management of resources and people. Oosthuizen (2003) argues that "conventional positioning approach to strategy development still constitutes a basic and viable framework under present-day realities" (p.13). Oosthuizen (2003) argues in favour since it represents a more viable paradigm that can accommodate and deal with the challenges and continuing uncertainty of the environment.

A complimentary approach to strategy has been promoted by Mintzberg (1979; 1983), Miller (1982, 1983, 1986), Miller and Friesen (1977, 1978, 1980a, 1980b), Miles and Snow (1978), and it is characterised as the emergent approach to strategy. Contrary to the prescriptive approach, the proponents of this paradigm argue that an organisation cannot implement a strategy according to its design. This is because the organisation happens to be in a constant flux of change (Mintzberg,

et al., 1998). Strategy becomes an emergent phenomenon as the organisation tries to achieve its objectives while at the same time dealing with the uncertainty of the environment. The process of implementation becomes a process of realising opportunities and taking action at the time it happens (Mintzberg, *et al* 1989).

In discussing the nature of this school, Cunah and Cunah (2006) argue that “Firms developed their strategic positions by an emergent process resulting from managers and employees improvisations in response to the realities of the market” (p.839). Even though the above two schools might be regarded as more representative in the strategy literature they are not the only ones¹.

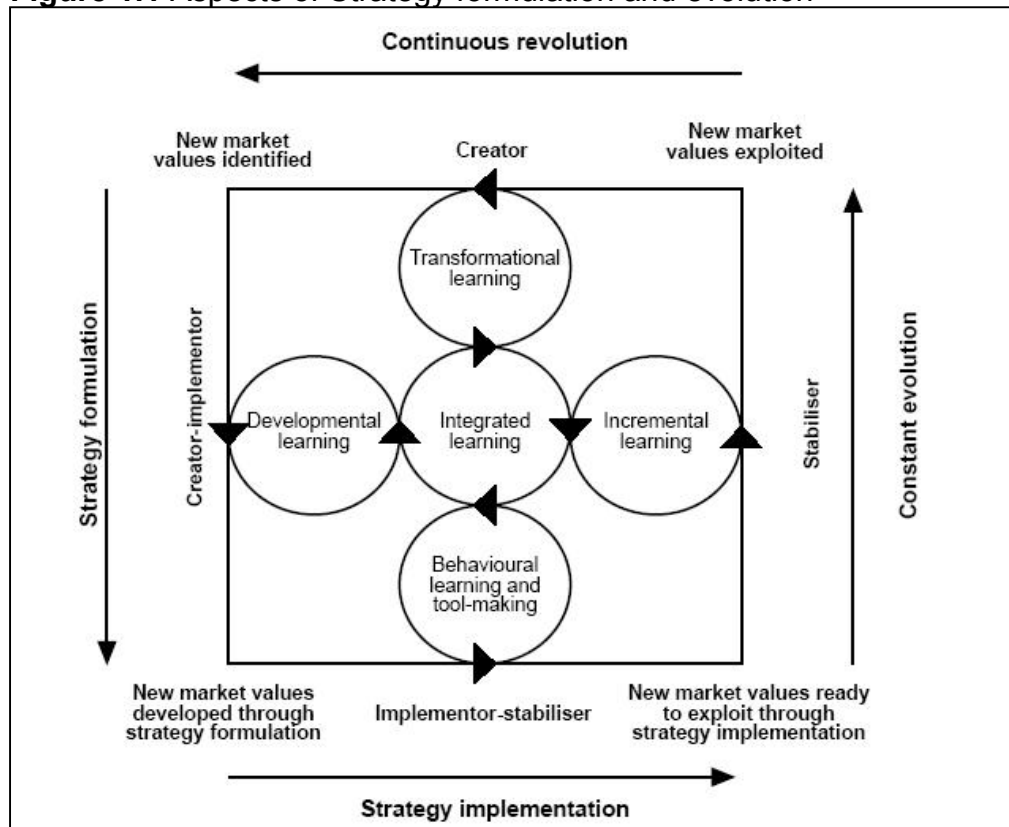
The argument developed by Prahalad and Hamel (1990) makes use of assumptions that mainly derive from the prescriptive school, but which nevertheless extends to premises supported by the emerging school. The basis of the argument is supported on the realisation of unique competencies that an organisation has developed and invests on maintaining. Prahalad and Hamel (1990) argue for a synthesis of internal tacit knowledge and product development that leads an organisation to a particular product position in the market. By maintaining a set of specific qualities that distinguish it from competitors an organisation is able to maintain a competitive edge that other organisations will have difficulty replicating. Prahalad and Hamel (1990) make reference to a number of corporations like Honda and NEC that invested in strengthening a specific expertise on key manufacturing and engineering areas. Such expertise would enable the organisation to become leader in its field and hence distinguish itself from its competitors.

Prahalad and Hamel’s (1990) argument however does not represent the assumption of ‘fit’ as promoted by the design school, because it argues for the importance of the emerging entrepreneurship and manipulation of innovativeness residing within the members of an organisation. A strategy is not dependent in the achieving of a niche market but in translating its knowledge resources into capabilities. The emphasis on innovation and continuous realisation is a thesis promoted by the emergence school. Mintzberg *et. al.* (1996) support the above proposition by arguing that the argument presented by Prahalad and Hamel (1990) emphasises “the dynamic capabilities approach as a hybrid principally of the design

¹ Mintzberg *et. al.* (1996) title the ten schools as follows: 1) The design school, 2) The planning school, 3) The positioning school, 4) The entrepreneurial school, 5) The cognitive school, 6) The learning school, 7) The power school, 8) The cultural school, 9) The environmentalist school, 10) The configuration school

and learning schools—if you like, a contemporary view of adaptive strategy as a process of conceptual design”. Figure 1.1 illustrates our position of the article’s argument in the above debate as it illustrates the synthesis of 1) strategy formulation and 2) constant evolution argued in the ‘tree metaphor’ by Prahalad and Hamel (1990) (see page 81).

Figure 1.1 Aspects of Strategy formulation and evolution



Source: Chaharbaghi and Willis (1998:1022)

3. The underlying theoretical assumptions of the article

Prahalad and Hamel (1990) argue that their position shifts away from the more traditional approaches to strategy where the end product is viewed as the ultimate criterion of success². Instead, the authors argue how organisations need to develop an understanding the process of information and knowledge dissemination together with their exchange within the different layers of the organisation. By tapping on those organisational areas where new product development and innovation take

² The underlying theoretical assumptions of the article derive from the view that a successful strategy is determined by the conditions of the environment against the evolving capabilities of the organisation. The assumption that core competencies can sustain future success provides an almost causal model of functioning where the organisation needs to realise the process with which it accomplishes its capabilities and market differentiation.

place, the argument is made for how organisations are able to enhance and strengthen their product portfolio. However, core competencies become the determining factor for any future success as they indicate qualities that consumers value among products.

The reliability of car engines produced by Honda according to Prahalad and Hamel (1990) is an accomplishment that has resulted from a continuing strive for innovation and improvement over time. This argument of 'fit', shares important theoretical assumptions of the contingency theory developed by Lawrence and Lorsch (1967) which argued how organizations must balance differentiation and integration to be successful. Moreover organisations that are able to achieve high sub-unit differentiation and yet still maintain high integration between sub-units are best equipped to adapt to environmental changes. However, this accomplished 'fit' is not simply produced through a process of product positioning. The core competencies represent a knowledge resource and such argument is influenced by the resource based view of the firm as initially proposed by Selznick, (1957), Penrose (1959), Chandler (1962, 1977), Barney (1991). According to Prahalad and Hamel (1990) such core competencies represent a valuable resource that needs to be protected and which is difficult to replicate.

4. Strengths and Weaknesses

The strengths of the article can be characterised as a means of promoting a new understanding about the role and importance of core competencies without being limited by the assumptions of the prescriptive approach to strategy. Prahalad and Hamel (1990) propose a hybrid approach that seeks to make use of the entrepreneurial qualities of the organisation, while at the same time, advances the understanding of the strategy fit approach. An additional strength to the above is the fact that the authors provide numerous examples that help illustrate the theoretical propositions of their argument. As a result, the authors are able to illustrate the practical implications of how core competencies can be understood in practice.

The key weakness of the article relates to the assumptions made concerning how organisations are able to translate their knowledge and product capabilities into core competencies. The model proposed by Prahalad and Hamel (1990) is prescriptive without elaborating on the complexities regarding the manipulation of knowledge by the members of an organisation. This can be more vividly illustrated

when discussing the section titled 'Developing Strategic Architecture'. The nuance of the argument produced is almost normative, in that it develops a set of criteria for achieving core competencies. To a large extent it can be counter-argued as to how organisations are in constant endeavour to actualise the above objective but nevertheless fail to succeed. In this sense, this essay argues that the paper needed to make more explicit the limitations of its argument and how core competencies may not be easily achievable despite the efforts by an organisation to manipulate its knowledge resources and people. As a result, the argument by Prahalad and Hamel (1990) should make more explicit reference to the possibility of failures in achieving core competencies and how this is an area that cannot be adequately explored in their paper.

5. Practical implications

Competition has dramatically changed in a knowledge economy as companies are not necessarily dependent on the physical resources that they only own, but also in manipulating the tacit knowledge and expertise that resides within the employees. This means that firms that may not possess the tradition or prestigious branding, as some of the large corporations do, can nevertheless thrive by investing on promoting in the development of core competencies that can drive the creation of new product development (Cambell and Alexander, 1997). The implication of this is that consumers can have access to products that help serve a number of previously unrealised needs. At the same time, companies are forced to become entrepreneurial and appreciate the performance of employees on a new array of criteria that concern qualities of innovativeness and the process of managing knowledge. The broader implication of the above is that the process of a successful strategy results from the way an organisation is able to maintain its expertise while at the same time adapting to the potential changes in the environment. This argument is well supported by Lowendahl and Revang (1998) who argue that in the phase of post-industrial competition "the difference is based in the uniqueness of how they [corporations] organize customers and assets and the way they are continuously improving these relationships. A firm may still achieve sustainable competitive advantage if it is able to utilize assets in an inimitable way, even if they are available to their competitors as well" (p.759).

6. Conclusion

This assignment has provided an explorative discussion on the article by Phahalad and Hamel (1990). The essay argued for how the argument on core competencies is part of the wider theoretical debate on strategy and which makes use of the descriptive and emergent approaches. The essay also argued that the contribution by the authors needs to be found in seeking to make explicit the needed entrepreneurial role of strategy but which is nevertheless positioned within the need for product differentiation and market positioning (Christensen and Clayton, 1997). The implications of the argument concern the changing nature of competition in a knowledge economy where qualities of innovativeness can represent detrimental qualities to success.

References

- Ansoff, H.I. and McDonnell, E.J. (1990) *Implanting strategic management*. New York: Prentice Hall.
- Campbell A., and Alexander M., (1997) 'What is wrong with strategy?' *Harvard Business Review*. Vol.75 Issue 6, pp.42-52
- Chandler, A. D., Jr. (1962) *Strategy and Structure: Chapters in the History of the Industrial Enterprise*. Cambridge, MA: MIT Press.
- Chaharbaghi, K. and Willis, R. (1998) 'Strategy: the missing link between continuous revolution and constant evolution', *International Journal of Operations & Production Management*. Vol.18, No.9/10, pp.1017-1027
- Christensen, M. C. (1997) 'Making Strategy – Learning by Doing'. *Harvard Business Review*. Vol.75 Issue 6. Pp.141-154
- Collins, J.C. & Porras, J.I. (1991) 'Organizational vision and visionary organizations', *California Management Review*. Vol.34 Issue 1, pp.30-52
- Cunha, M.P.E. and Cunha J. V. Da (2006) 'Towards a Complexity Theory of Strategy', *Management Decision*. Vol.44, No.7, pp.839-850
- Goold, M. (1992) 'Design, Learning and Planning: A Further Observation on the Design School Debate'. *California Management Review* Vol.38 Issue 4, pp. 94-95
- Goold, M. (1996) 'Learning, Planning, and Strategy: Extra Time.' *California Management Review*. Vol. 38, Issue. 4. pp.100-102.
- Hamel G. (1996) 'Strategy as Revolution'. *Harvard Business Review*. Vol.74 Issue 4, pp. 69-82
- Johnson G, Scholes, K, Whittington, R. (2008) *Exploring Corporate Strategy*. London: Prentice Hall
- Lawrence, P. and Lorsch, J. (1967) 'Differentiation and Integration in Complex Organizations', *Administrative Science Quarterly*. Vol.12, No.1 pp. 1-30.
- Lidtka, J. (2000) 'In Defence of Strategy as Design'. *California Management Review*. Vol.42. Issue3. pp.8-30
- Lowendahl, B. and Revang O. (1998) 'Challenges to Existing Strategy Theory In A Postindustrial Society', *Strategic Management Journal*. Vol. 19, pp. 755-773

- Miles, R. E., and Snow, C. C. (1978) *Organizational Strategy, Structure, and Process*. New York: McGraw- Hill
- Miles, R. H. (1982) *Coffin Nads and Corporate Strategies*. Englewood Cliffs, NJ: Prentice Hall.
- Miles, R.E. & Snow, C.C. (1978) *Organisational strategy. Structure and process*. New York: McGraw Hill Book Co.
- Miller, D. (1983) 'The Correlates of Entrepreneurship in Three Types of Firms.' *Management Science*. Vol.29, pp. 770-791.
- Miller, D. (1986) 'Configurations of Strategy and Structure: Towards a Synthesis.' *Strategic Management Journal*. Vol.7, pp. 233-249.
- Miller, D., and Friesen, P. H. (1977) 'Strategy-Making in Context: Ten Empirical Archetypes.' *Journal of Management Studies*. Vol.14, pp.253-279.
- Miller, D., and Friesen, P. H. (1978) 'Archetypes of Strategy Formulation.' *Management Science*.Vol.24, Issue. 9, pp. 921-933.
- Miller, D., and Friesen, P. H. (1980a) 'Momentum and Revolution in Organizational Adaptation.' *Academy of Management Journal*.Vol.23, pp.591-614.
- Miller, D., and Friesen, P. H. (1980b) 'Archetypes of Organizational Transition.' *Administrative Science Quarterly*. Vol. 25, pp. 268-299.
- Mintzberg, H. (1979) *The Structuring of Organizations: A Synthesis of the Research*. Englewood Cliffs, NJ: Prentice Hall
- Mintzberg, H. (1983) *Power In and Around Organizations*. Englewood Cliffs, NJ: Prentice Hall,
- Mintzberg, H. Ahlstrand, B. Lampel, J. (1998) *Strategy Safari*. New York, NY: The Free Press
- Oosthuizen, H. (2005) 'The relationship between strategic process dimensions and organisational output performance - A South African investigation in relation to global best practices'. *South African Journal of Business Management*. Vol.36 Issue 4. pp. 9-16
- Penrose, E. T. (1959) *The Theory of the Growth of the Firm*. New York: Wiley Publishing
- Porter, M. E. (1980) *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: Free Press
- Porter, M. E. (1985) *Competitive advantage*. New York: The Free Press.
- Porter, M. E. (1987) 'From competitive advantage to corporate strategy'. *Harvard Business Review*. Vol. 65, Issue 3, pp.62-79
- Porter, M. E. (1996) 'What is strategy?' *Harvard Business Review*, Vol.74. Issue 6. pp. 61-78
- Prahalad, C. K. and Hamel, G. (1990) 'The Core Competence of the Corporation', *Harvard Business Review*, Vol.68, Issue 3. pp. 79-91
- Prahalad, C. K. and Hamel, G. (1994) 'Strategy as a field of study: Why search for a new paradigm', *Strategic Management Journal*, Vol.16, pp.5-16
- Selznick, P. (1957) *Leadership in Administration: A Sociological Interpretation* Evanston, IL: Row, Peterson



www.mbawinner.com

This work is the sole property of MBA Winner. No parts of it are allowed to be copied or distributed in any form and without getting written consent from MBA Winner.
All rights reserved