Evaluate the benefits and drawbacks of hamel and prahalad’s (1990) concept

Business, Company

Hamel and Heene, (1994) define core competencies as firm-specific skills and cognitive traits that are engaged towards the fulfilment of the maximum possible heights of customer satisfaction. Core competencies could be applied to satisfy present customers or to develop a wide variety of core products and services. (Hamel and Heene, 1994) mention that core competencies are supposed to give a business an advantage over its competitors. Core competences are regarded as traits that are present internally and these traits comprise of skills and understandings that are amassed over time. Core competencies should lead a business towards distinctive traits in a way that profit is earned automatically. It is very important for a business to have distinctive traits in order to differentiate its products to its competitors' products. For example: Hondas core skill is in engine designing and due to this it has a reputation of overall reliability (Prahalad and Hamel, 1990). Hondas engines could be seen as a distinctive trait compared to its competitors. Not every consumer knows that Honda is known for its engine design but recognise that the brand is reliable. What could be understood is that once a business has a distinctive trait and is focused on its core skill then economic profit could be earned in open competition.

Core competencies could be regarded as qualities that are embedded in an organisation or could have been created over time. Core competencies could be seen as a benefit to businesses because it brings in a lot of involvement between the management and the workers. Core competencies are regarded as communication, involvement and a deep commitment to working across the boundaries in an organization (Montgomery and Porter, 1991). Core competencies take a lot of time to completely become extinct in an organisation. Competencies are usually enhanced over time and are updated by businesses as new ideas are implemented (Prahalad and Hamel, 1990). Competences tend to create more opportunities for a business as it provides access to different markets. Prahalad and Hamel, (1990) state that when a company has a competence in a particular field like display systems then it creates larger opportunities where the firm could expand into manufacturing calculators, televisions, PC monitors and also auto audio screens. An example of this is Casio who is widely known for its calculators decided to enter the handheld television market and also the watches market.

Competences that engage a business in constructing assets that are slow and expensive for competitors to imitate are the ones that are highly impactful. These assets could include: an efficient network of distributors, a customer base that is loyal towards the brand. This loyalty cannot be bought or copied quickly. Core competencies could also be regarded as a process of continuous learning because businesses tend to acquire new knowledge by carrying out various experiments. When looking at Chrysler between 1985 and 1987, it was understood that Chrysler was outsourcing its engines from Mitsubishi and Hyundai (Hamel and Heene, 1994). When comparing this to Honda, Honda manufactured its own engines and created a competency in that area. This enabled it to compete against brands such as Toyota and GM despite a low R and D budget. Once a business takes on full responsibility of the manufacturing of its core product then it could start moving towards creating a competency. One of the major benefits of core competencies is that it brings the organisation together in focusing on a similar goal. From the employees to the management, everyone is working towards improving the firm’s work ethics in order to maintain their competence (McGee, Thomas and Wilson, 2010). Core competence is not something that will last forever. If the management of the business neglects its core product over time and diversifies into manufacturing something different from what it is best at manufacturing, then the core competence could vanish (Lampel et al., 2014). Honda had a core competence in manufacturing its engines but if the company started outsourcing the manufacturing of its engines to Hyundai or Mitsubishi, then it would loose out on its business as competitors would make similar engines or better ones than Honda (Hamel and Heene, 1994). It could be seen as Honda giving out their expertise to other businesses, which means that what had been worked on for years would be lost.

Hamel and Heene, (1994) mention that core competencies must create an impact on a customers perceived value and it is not necessary for the core competence to be visible or easily understood. If customers were asked to why they prefer the Honda driving experience, only few of them would explain why driving a Honda would be better than another brand. But a large proportion of customers would mention that the Honda just feels and performs better. Looking at Macintosh, only a few consumers would explain the competencies behind the user-friendly interface of Macintosh while the majority would mention that the computer is easy to use. This clearly explains that consumers only look at the benefit of a product and very rarely pay attention to the competencies that underline the benefits. (Lynch, 2015). A major benefit of core competences is that it enables gateway to new markets (Ahlstrand, Lampel and Mintzberg, 1998). Honda having a competence in engine manufacturing has also ventured into various other markets such as manufacturing generators. Sharp had a competency in manufacturing flat screen displays, this competency opened new opportunities for Sharp where it started developing laptops, video projectors and other electronics. An important element to consider is that what is ' core' changes over time and it is the management's role to cope to build a long run plan in order to sustain their competences. Companies such as Yahoo, Blockbuster, Nokia and many others failed to retain their core competencies over time due to over confidence of top management. When looking at blockbuster, it operated more than 4000 outlets in the United States selling DVDs and Vhs. A business that was worth more than five billion dollars collapsed due to the rapid growth of internet which created an opportunity for Netflix to rise. Netflix was a new comer to the business of renting movies while Blockbuster had developed a competency in that industry. Blockbuster failed to plan for the future thinking people will hook on to buying dvds and this backfired for the business who later filled for bankruptcy. When looking at Blockbusters example, it could be seen as the business did not invest in strengthening their core competencies in the entertainment industry. The management was over confident of its business model and neglected planning for the future (Lampel et al., 2014). Hamel and Heene, (1994) also mention that " competencies that initially generated success have become so deeply embedded within the organization that they are taken for granted by individuals and are assumed to be a permanent feature of the organization”.

Icarus flew too high, close to the sun, which led to his artificial wax, wings getting melted and later leaped to his death (Miller, 1992). The paradox is that his greatest asset leads to his decease. This paradox could be utilised in analysing many companies today. The success of firms in various platforms usually tends to lead towards their downfall (Miller, 1992). It is said that many organizations tend to go from being rich to becoming bankrupt overtime, there are four very common trajectories of decline: the focusing trajectory takes scrupulous quality driven craftsmen , businesses with great engineers and airtight operations and turns them into ‘ tinkers’ that are highly obsessed with details (Amason and Mooney, 2008). Its not bad to look at details because customers are always paying for quality products but when craftsmen get too much into focusing on technical details they tend to move away from the purpose which is to create a product that attracts buyers. Craftsmen get too much into the product leading to over engineering products that are later highly priced. This could lead to the creation of products that are high in quality but are not what customers want. The venturing trajectory turns builders, great leaders and staff into greedy imperialists. An example of this is Litton Industries that was expanded from a tiny microwave company into one of the most reputable technology companies in the 1960s. Litton made some selective and related acquisitions that enhanced the company’s growth. Littons sales grew drastically from $3 million to $1. 8 billion within twelve years (Miller, 1992). Due to successful acquisitions in the past, Litton’s become over confident and went on buying larger businesses in platforms that it had never exploited. Later, the company could not cope up with the heavy debts and is known as a great Icarus example now. The inventing trajectory pioneers with unexcelled R and D departments, flexible tink tank operations and state of the art products, and transforms them into utopian escapists (Miller, 1992). Pioneers tend to get carried away by their inventions and later become escapists. This happens when businesses introduce futuristic products that cost lots of money to develop and research on. Firms tend to spend millions of pounds in developing futuristic products but when it fails, it brings the whole company down since lots of money had been put into the project. It could also be said that due to looking into the future, the business has failed to look into its present environments and has lost grip on its core competences. Finally the decoupling trajectory transforms salesmen, organisations with great marketing skills, large brand names that have operations in various markets into aimless, bureaucratic drifters(Miller, 1992).. Businesses tend to vigorously focus on that something that brought them success, this could be a particular product/service or a method of manufacturing. In the beginning it is great to do so in order to become better at it. But there have been cases where businesses keep focusing on their initial product/ service and tend to neglect the fundamental changes that are happening around their business environment that include change in customer demand, new technologies and new business models.

The above four trajectories are examples of how large organisations decline from being on top to gradually loosing grip of their core business (Miller, 1992). These four trajectories could also be linked to core competences. A business that has created a competence in a particular aspect could loose its presence if it were to go through the negative side of any four trajectories. Nokia was known to have had a core competence in building and engineering their software and Symbian software was their core product. Nokia was a leading brand for many years in the mobile industry, in 2007 when smartphones were introduced, Nokia saw a decline in market share. The reason to their decline was the usage of Symbian as their core product. It seemed as Nokia was very rigid and was over confident about its product that it launched the N97 in 2009. Which was termed as " a total fiasco in terms of the quality of the product." This could be regarded as what Miller (2009) describes as a focussing tragedy. The failure of Nokia could be seen due to internal politics. Top management was over confident due to the success the company had been seeing in the past. The designs that were known to be excellent in the past turn out to be today's sacrosanct anachronisms (Miller, 2009). The bureaucratic management (Amason and Mooney, 2008) of Nokia could also be blamed for their downfall as lower managers and staffs were scared to talk to the top management who were always ready to shout back, and remember that competencies are built over time. Looking at Nokia's situation, it could be argued that they did not plan for the future otherwise how did Apple start manufacturing smartphones before Nokia when Nokia was still a leading brand. ,. The situation of Nokia is also regarded as an Icarus since the business lost approximately 90% of its market share in just six years.

In conclusion, Hamel and Prahlad stated that core competences could be beneficial for businesses for long term strategy. Businesses could plan for the future using their core competences such as Sharp and Toshiba (Lynch, 2015). Both companies saw a future in flat-screen electronic technology and invested millions of dollars into it. This investment turned fruitful as both used the technology in creating portable computers, digital watches and other items. While the draw back of core competence could be that businesses could make core competence a status quo that would be deeply imbedded in their culture making it challenging to unlearn when required.