

1990 Gary Hamel cuts to the core

Some time in the late 1980s, Gary Hamel, a lecturer at London Business School, sat down and wrote a short note on a company he had been advising. He sent the memo off to his collaborator, the late C K Prahalad of the University of Michigan. Hamel recalls telling CK, “there may be a new way of thinking about the building blocks of a corporation.” About a year later those notes surfaced in a joint paper published in the *Harvard Business Review*, called ‘The Core Competence of the Corporation’. It became the most popular article ever published by *HBR*, and one of the most cited management texts of all time.

The idea of ‘core competence’ fitted the times. In the 1980s, long established companies were facing unexpected challenges from new competitors, many of which were Japanese. The Japanese seemed to have found a way of blending an array of complex technologies and skills, and then exploiting them in a gush of break-through products. In the US and Europe, Honda, Toyota, Sony, Canon, JVC and others, were capturing big chunks of the market for cars, consumer electronics, semiconductors, cameras, copiers and computers.

The a-ha moment

Many observers agreed that something was missing in western business practices, but there was little consensus around the diagnosis, and even less about what, practically, should be done.

“For me,” recalls Hamel, “the ‘a-ha’ moment came when I was reflecting on a major decision that faced a company I was advising at the time. The question was whether they should outsource a critical component to a Japanese supplier. While

the component could be acquired more cheaply from Japan than from internal sources, I was worried that the decision to outsource would prove to be irreversible.” Hamel worried that his client would forever lose control of a critical skill set that was central to the performance of the firm’s entire product line.

Defining the core

Thus was born the idea of ‘core competence’ – an essential set of skills and technologies that imbues a company’s products and services with a unique performance advantage. For Hamel and Prahalad, a ‘core’ competence was a tightly knit fabric of hard and soft technologies that made a disproportionate contribution to perceived value, that could be leveraged across multiple markets, and that was tough for competitors to imitate. One of their exemplars was Canon, a company that used its skills in imaging to innovate furiously in cameras, copiers and optical instruments.

Clarity not simplicity

The idea rapidly took hold. Here was a concept that helped explain why some of the biggest and most respected companies had lost their way. Executives had been told that all that mattered was the brand, and the channels to reach the customer. Control these, and you’d control the industry. Hamel and Prahalad disagreed. You couldn’t forever hold on to your customers if you surrendered the core skills that created customer value and competitive differentiation.

Yet while the core competence idea was universally lauded, it was not universally understood. Many leaders used the notion to justify further rounds of cost-cutting and outsourcing. Rather than

strengthening existing competencies and building new ones, they argued that shareholders would be best served if businesses retrenched around one or two key skills. This was not what Hamel and Prahalad had recommended: their paper suggested that companies should nourish a portfolio of competencies that would add value to a diverse portfolio of businesses. They weren’t arguing for pruning, but for a sustained commitment to building ever deeper and more valuable capabilities. The authors were, in fact, very cautious about outsourcing.

Guard your jewels

“I am not opposed to outsourcing,” says Hamel. “Nobody can do everything. The problem comes when you outsource something without first asking what role it will play over the long-run in product differentiation.”

Hamel amplifies the point: “Not long ago within the computer industry there was a widespread belief that the best way to compete was to focus on a single ‘layer’ of the industry. It’s ironic then, that the world’s two most formidable technology companies, Apple and Samsung, have built very broad competence portfolios. Sure, Apple outsources much of its manufacturing, but it doesn’t want to depend on others for the competencies that are truly critical. So here’s the most valuable company in the world, making the same case that CK and I made nearly 25 years ago.”

The cycle of understanding

Hamel is philosophical about the way the core competence idea has been interpreted. “There is always a tendency to reduce complex ideas to a single bullet point,” he says. If you want an idea to travel, you have



to package it up and put a handle on it. The problem is that some people pick up the handle and leave the suitcase behind.” Nevertheless, the core competence idea has proved highly influential in corporate life, and has deeply shaped the way companies think today. The contemporary emphasis on teamwork across functional boundaries, and on talent as a critical resource, are both part of the legacy of Hamel and Prahalad’s work.

Welcome to the real world

Hamel also believes that the core competence idea could not have flourished in the way that it did without the backing of London Business School.

“In the late 1980s, LBS was still a young school,” says Hamel. “It didn’t have a big endowment, so it couldn’t afford to be irrelevant. It put a premium on ideas that had the power to make a difference. CK and I would never have conceived of the notion of core competence if we hadn’t been immersed in the world of practice.”

And he adds, “I’m sure the School reaped some benefit from the attention garnered by the core competence argument, but I have been on the payroll for 31 years and I’m pretty sure I’ve had the better end of the deal.”

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