

The Core Competence of the Corporation*

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The most powerful way to prevail in global competition is still invisible to many companies. During the 1980s, top executives were judged on their ability to restructure, declutter, and delay their corporations. In the 1990s, they'll be judged on their ability to identify, cultivate, and exploit the core competencies that make growth possible — indeed, they'll have to rethink the concept of the corporation itself.

Consider the last ten years of GTE and NEC. In the early 1980s, GTE was well positioned to become a major player in the evolving information technology industry. It was active in telecommunications. Its operations spanned a variety of businesses including telephones, switching and transmission systems, digital PABX, semiconductors, packet switching, satellites, defense systems, and lighting products. And GTE's Entertainment Products Group, which produced Sylvania color TVs, had a position in related display technologies. In 1980, GTE's sales were \$1.73 billion. NEC, in contrast, was much smaller, at \$3.8 billion in sales. It had a comparable technological base and computer business, but it had no experience as an operating telecommunications company.

Yet look at the positions of GTE and NEC in 1988. GTE's 1988 sales were \$16.46 billion, and NEC's sales were considerably higher at \$21.89 billion. GTE has, in effect, become a telephone operating company with a position in defense and lighting products. GTE's other businesses are small in global terms. GTE has divested Sylvania TV and Telenet, put switching, transmission, and digital PABX into joint ventures, and closed down semiconductors. As a result, the international position of GTE has eroded. Non-U.S. revenue as a percent of total revenue dropped from 20 % to 15 % between 1980 and 1988.

NEC has emerged as the world leader in semiconductors and as a first-tier player in telecommunications products and computers. It has moved beyond public switching and transmission to include such lifestyle products as mobile telephones, facsimile machines, and laptop computers — bridging the gap between telecommunications and office automation. NEC is the only company in the world to be in the top five in revenue in telecommunications, semiconductors, and mainframes. Why did these two companies, starting with comparable business portfolios, perform so differently?

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Largely because NEC conceived of itself in terms of “core competencies”, and GTE did not.

1. Rethinking the Corporation

Once, the diversified corporation could simply point its business units at particular end product markets and admonish them to become world leaders. But with market boundaries changing ever more quickly, targets are elusive and capture is at best temporary. A few companies have proven themselves adept at inventing new markets, quickly entering emerging markets, and dramatically shifting patterns of customer choice in established markets. These are the ones to emulate. The critical task for management is to create an organization capable of infusing products with irresistible functionality or, better yet, creating products that customers need but have not yet even imagined.

This is a deceptively difficult task. Ultimately, it requires radical change in the management of major companies. It means, first of all, that top managements of Western companies must assume responsibility for competitive decline. Everyone knows about high interest rates, Japanese protectionism, outdated antitrust laws, obstreperous unions, and impatient investors. What is harder to see, or harder to acknowledge, is how little added momentum companies actually get from political or macroeconomic “relief”. Both the theory and practice of Western management have created a drag on our forward motion. It is the principles of management that are in need of reform.

NEC versus GTE, again, is instructive and only one of many such comparative cases we analyzed to understand the changing basis for global leadership. Early in the 1970s, NEC articulated a strategic intent to exploit the convergence of computing and communications, what is called “C&C” [1]. Success, top management reckoned, would hinge on acquiring *competencies*, particularly in semiconductors. Management adopted an appropriate “strategic architecture”, summarized by C&C, and then communicated its intent to the whole organization and the outside world during the mid-1970s.

NEC constituted a “C&C Committee” of top managers to oversee the development of core products and core competencies. NEC put in place coordination groups and committees that cut across the interests of individual businesses. Consistent with its strategic architecture, NEC shifted enormous resources to strengthen its position in components and central processors. By using collaborative arrangements to multiply internal resources, NEC was able to accumulate a broad array of core competencies.

NEC carefully identified three interrelated streams of technological and market evolution. Top management determined that computing would evolve from large mainframes to distributed processing, components from simple ICs to VLSI, and communications from mechanical cross-bar exchange to complex digital systems we now call ISDN. As things evolved further, NEC reasoned, the computing, communications, and components businesses would so overlap that it would be very hard to distinguish among them, and that there would be enormous opportunities for any company that had built the competencies needed to serve all three markets.