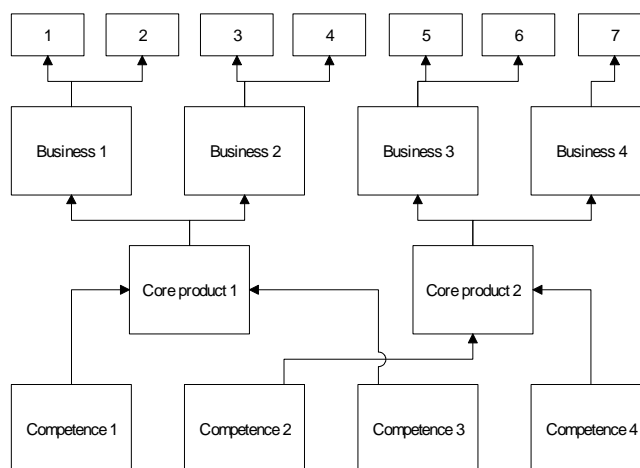


## The Core Competence of the Corporation

C.K. Prahalad and Gary Hamel – Harvard Business Review No. 90311 – May-June 1990

Competition is changing, as companies now are facing a new global market. In this new environment the core competencies of a company is the root of its competitive advantage.

In the short run competitiveness derives from the price/performance attributes of existing products. However, in the long run, the competitive advantage is founded on management's ability to consolidate the technology and product skills of the whole company into competencies that enables individual businesses to adapt quickly to changing opportunities. This process is illustrated by the figure, where the corporation grows like a tree from its roots. Core products are nourished by competencies and engender business units, whose fruits are end products.



The creation and maintenance of core competencies requires collective learning in the organisation. Especially how to co-ordinate diverse product skills and integrate multiple streams of technology. Further it is important that communication is good and that all employees are involved and feel a deep commitment to working across organisation boundaries. Unlike physical assets, which do deteriorate over time, competencies are enhanced as they are applied and shared. The cost of losing a core competence can only partly be calculated in advance. As core competencies are built through a process of continuous improvement and enhancement that may span over several years, it will be difficult for companies that did not invest in core competence building to enter emerging markets. When it comes to core competencies, it is difficult to get off the train, walk to the next station, and then re-board.

A corporation is traditionally seen upon as existing of a portfolio of strategic business units. This may have several negative effects. First of all decentralisation makes it difficult to focus on competencies. By having a too narrow focus one cannot recognise the opportunities that exists from blending functional expertise in one unit with those of others in new and interesting ways. Another problem with SBUs are that an individual business often becomes dependent on outsiders for critical components and skills. Such outsourcing can provide a shortcut to a more competitive product but it contributes little to building the people-embodied skills that are needed to sustain product leadership. Finally, the use of SBU often leads to imprisoned resources. As an SBU evolves, it often develops unique competencies. The employees that embody these competencies are usually seen as belonging to that specific unit and not to the whole company. This often means that talent is kept within one unit instead of assigned to the area where it would be most useful.

To provide a distinct competitive advantage the organisation needs to identify and commit to the technical and production linkage across SBUs. The creation of a corporate wide strategic architecture forces the company to do so. The strategic architecture is the companies guide to the future and identifies which core competencies to build. Key indicators of the core competencies are that they give potential access to a wide variety of markets. Further they make a significant contribution to the perceived consumer benefits of their end products and last but not least they are difficult for competitors to imitate. Once this architecture is in place businesses must identify the projects and people most closely connected with them. This would mean a new corporate politics that opts for team players. Transfers of people for the sake of building core competencies must be recorded and appreciated in the corporate memory. It is reasonable to expect that a business that has surrendered core skills will for a time suffer from loss of competitiveness. If these losses in performance bring immediate censure, SBUs are unlikely to assent to skills transfers at a later occasion.

The tangible link between core competencies and end products is what the authors call the core products. They are the physical embodiment of one or more core competencies and contribute directly to the value of the end products. This distinction between core competencies, core products and end products is essential as global competition is played out by different rules and for different stakes on each level. To sustain leadership a corporation will probably need to be a winner on each level.

Only if the company is conceived of as a hierarchy of core competencies, core products and market focused business units will it be fit to fight. Competence carriers should be regularly brought together to trade notes and ideas to build a strong feeling of community between these people. To enable the discovery of new market opportunities, these people should also travel regularly and meet with consumers.