GARY HAMEL
C.K. PRAHALAD

COMPETING FOR THE FUTURE

BREAKTHROUGH STRATEGIES FOR SEIZING CONTROL OF YOUR INDUSTRY AND CREATING THE MARKETS OF TOMORROW

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This book is dedicated to our children . . .
Paul and Jessica
Murali and Deepa
. . . our own stake in the future

Preface

The book you are holding is the record of a unique partnership spanning seventeen years. In 1977 one of us (Gary) was a doctoral student in international business at the University of Michigan and the other (C.K.) a newly hired associate professor of strategy. We first met when the professor crossed departmental lines to give a seminar to the international business Ph.D. students. What we both remember is that the afternoon quickly turned into an extraordinarily pointed, take-no-prisoners debate between the two of us. Each of us was determined to deliver an unequivocal intellectual *coup de grace.* Others present thought we might never speak to each other again, let alone work together. But the seeds of mutual respect, and, ultimately, friendship, were sown that afternoon. Other, equally contentious debates followed, but we quickly discovered that we had more in common than a passion for academic sparring. We both believed that the ultimate test of business school research is its managerial significance. We were both deeply concerned with the ability of large enterprises to maintain their competitive vitality. And we both felt there was a great deal of managerial and competitive reality that lay beyond the boundaries of existing theory. These shared interests laid the foundation for the ensuing years of joint research, shared consulting assignments, and co-authorship.

The collaboration started in earnest when a consulting relationship C.K. had with a large and respected American firm became the grounds for our first joint research. Though the company declined to release the specifics of the study, the ideas generated became the basis for our first *Harvard Business Review* article, "Do You Really Have a Global Strategy?" As our research and consulting took us to other companies, we were intrigued by how smaller rivals, many from Japan, could apparently prevail against much larger, richer companies. How, we wondered, could competitors with such apparently meager resources manage to successfully challenge corporate giants? What prevented industry leaders from turning aside the challenge of impertinent newcomers? We saw this pattern, of an incumbent's failing to adequately defend itself against smaller, resource-limited challengers, again and again. How could we square what we were observing with the prevailing theory about the market power of incumbents and the advantages of market share? What theory could explain how Canon managed to make such a huge dent in Xerox' market share? How could Honda manage to outgun, in so many ways, the behemoths of Detroit? And what about Sony versus RCA?

The marked differences we observed in resource effectiveness could not be explained by incremental differences in operational efficiency, nor by institutional factors such as the cost of labor or capital. No static comparison of cost structures could account for the seeming ability of some companies to constantly invent new ways of accomplishing more with less. What, we asked ourselves, could account for such disparities in resource effectiveness?

It was clear that the challengers were driven by something more than short-term financial goals. As we looked back across their investments, alliances, international expansion strategies, and new product announcements, we observed a consistency to their actions that presupposed a point of view about the future. As we interviewed managers in these companies, they often referred to amazingly ambitious goals—goals that stretched far beyond the temporal bounds of typical strategic "plans." Where did such aspirations come from? How did they get by the "reality test" that truncates ambition in so many companies? And how could such seemingly incredible goals be made tangible and real to employees at all levels?

Many times the challengers had succeeded in creating entirely new forms of competitive advantage and in dramatically rewriting the rules of engagement. Flexibility advantages were built atop speed advantages, which were built atop supplier-management advantages, which were built atop quality advantages. What interested us was not the particulars of any single advantage; those could be easily accounted for by traditional notions of competitive advantage. Instead, we were intrigued by the process of advantage creation. What drove some companies, and not others, to continuously search for new advantages? What was the dynamic at work?

We saw companies making commitments to particular skill areas—optical media, financial engineering, miniaturization—far in advance of the emergence of specific end-product markets. Senior executives seemed to see competition as a race to build competencies, not simply to gain immediate market share. What was the basis, we asked ourselves, for such commitments? How could one write a business case for a market that might not emerge for a decade or more? What was the logic behind the emotional and intellectual commitment so much in evidence? How did executives select which capabilities to build for the future?

We had to conclude that some management teams were simply more "foresightful" than others. Some were capable of imagining products, services, and entire industries that did not yet exist and then giving them birth. These managers seemed to spend less time worrying about how to position the firm in existing "competitive space" and more time creating fundamentally new competitive space. Other companies, the laggards, were more interested in protecting the past than in creating the future. They took the industry structure as a given, seldom challenging the prevailing conventions. But where did the foresight come from? How was it possible to imagine markets that hadn't yet come into being?

Existing theories of strategy and organization, while providing a solid base for discovery, do not fully answer these questions. While they help us understand the structure of an extant industry, they provide little insight into what it takes to fundamentally reshape an industry to one's own benefit. While they illuminate the attributes of a transformational leader, they say little about what it takes for a leadership team to develop a prescient, well-grounded point of view about the future, much less to make it happen. While they provide a scorecard for keeping track of relative competitive advantage, they fail to capture the dynamic of competence-building.

The gap, then, between theory and observation provoked this book. We wrote it at a time when companies were disbanding corporate strategy departments, when consulting firms were engaged more often to improve operating efficiency than to plot strategy, and when many companies were rushing to downsize rather than to create the markets and industries of tomorrow. It is, perhaps, not too overstated to say that strategy has been in crisis. Our goal in this book is to enlarge the concept of strategy so that it more fully encompasses the emerging competitive reality—a reality in which the goal is to transform industries, not just organizations; a reality in which being incrementally better is not enough; a reality in which any company that cannot imagine the future won't be around to enjoy it. In closing the gap between theory and reality, we hope to return to strategy a little of its lost luster.

While this book is about strategy, about "how to think," it draws heavily on the experience of companies around the world that have managed to overcome resource disadvantages and build positions of global leadership. It devotes even more attention to companies that have managed to escape the curse of success and have rebuilt industry leadership a second and third time. Nevertheless, the companies held as exemplars in this book don't necessarily pass a comprehensive test of "excellence." There is no single company that fully embodies the approach to strategy, competition, and organization we are advocating, though some come closer than others. We believe there is plenty of upside potential for every company willing to commit to the action agenda laid out in these pages.

So *Competing for the Future* is not for dilletantes; it is not for the merely intellectually curious. It is a handbook for those who are not content to follow, for those who believe that the best way to win is to rewrite the rules, for those who are unafraid to challenge orthodoxy, for those who are more inclined to build than cut, for those more concerned with making a difference than making a career, and for those who are absolutely committed to staking out the future first.

Acknowledgments

We have had the opportunity to interact with tens of thousands of managers over the last decade and a half, and this book is, in large part, the product of that interaction. Through a series of research programs, through executive education (on behalf of the London Business School and the University of Michigan, and in dozens of companies), and through consulting assignments in many of the world's leading companies, we've learned much about what it takes to successfully compete for the future. We owe an enormous debt to the managers from whom we learned and to the companies that gave us an opportunity to test our ideas.

In particular, we would like to thank Rob Wilmott and Peter Bonfield, the past and present chief executives of ICL plc. Our research and executive development partnership with ICL, formed in the mid-

1980s, provided much of the early impetus for our thinking on global competition, strategic alliances, and "strategic intent." A similar relationship with Motorola, under the sponsorship of then Chairman Bob Galvin and CEO George Fisher, provided us an opportunity to form and test our ideas around the notion of core competence. Executives at EDS made a significant contribution to the development of our thinking on "strategic architecture" and the process of strategy "regeneration." We would like to thank especially Les Alberthal, chairman of EDS, as well as Nick Baretta and Greig Trosper. Other companies that provided fertile ground for action research included AT&T, Cargill, Trinova, Ford, Rockwell, Philips, Colgate-Palmolive, and Eastman Chemical. We would also like to acknowledge the contribution of the Gatsby Charitable Foundation in providing financial support for our research.

We have benefited greatly from a wide variety of research that has preceded this book. Our intellectual debt to strategy pioneers Ken Andrews, Igor Ansoff, Alfred Chandler and to many others is substantial. Our work resonates with their concern for the setting of corporate direction and the accumulation of distinctive competencies. We are also indebted to Michael Porter, who so successfully integrated corporate strategy and industrial economics. He reminded his colleagues that corporate strategy can be neither created nor pursued in a competitive vacuum. Any strategy that is not grounded in a deep understanding of the dynamics of competitive rivalry will fail. Hence our emphasis in this book on *competition* for the future. Professor Henry Mintzberg has made a similarly valuable contribution to our learning. We are entirely sympathetic to his view of strategy outcomes as always evolutionary and often unpredictable. Professor Mintzberg's view of strategy as an organic process, and Professor Porter's somewhat more analytical and deterministic view of strategy, are often seen as antithetical to each other. Yet we believe that both scholars have illuminated important truths about the nature of strategy. Strategy is both a process of understanding and shaping competitive "forces" and a process of open-ended discovery and purposeful incrementalism.

Like the pioneers, we believe that top management must develop a point of view about desired competitive outcomes. Like Professor Porter, we believe that that point of view must be fully cognizant of the aspirations and strategies of rivals seeking to occupy the same competitive space. Like Henry Mintzberg, we believe that much cannot be known about the future, and that planning can never be a wholly acceptable substitute for discovery and learning.

Our book is just one thread in a tapestry of new perspectives on strategy and competition. Through seminars, reading, and personal conversations we have benefited enormously from the fresh ideas brought to the strategy marketplace by Richard Pascale, Peter Senge, James Brian Quinn, Hiroyuki Itami, Kenichi Ohmae, Ikujiro Nonaka, Richard Rumelt, David Teece, Robert Burgleman, Ingemar Dierickx, Karel Cool, Jay Barney, Yves Doz, and several others. Rather than providing a footnote at every point where their ideas coincide with ours, we simply wish to direct the reader's attention to the substantial body of sound, innovative thinking that is contained in the work of these "new age" strategy scholars. Though these researchers have, for the most part, worked in parallel, rather than in serial, and have often used different words to describe similar phenomena, their perspectives on the challenges facing managers are broadly similar to our own. Like us, they emphasize "invisible assets," "learning," "innovation," "capabilities," "knowledge," "vision," and "leadership." Like us, they are working hard to ensure that the strategic tools and perspectives available to managers are up to the task of crafting strategy for the twenty-first century. We have drawn inspiration from these scholars and assurance that perhaps we are on the right track after all. For readers interested in the work of the strategy pioneers that formed the point of departure for this book, or in the more recent work of scholars whose work complements that of our own, we provide a bibliography at the end of this volume.

There is another individual whose wisdom has benefited our work enormously, one who is both a pioneer and a latter-day guru—Professor Peter Drucker. Professor Drucker has never lost sight of the fact that, for a theory or concept to be useful, it must ultimately be translated into the language and context of managers and managerial action. He has also been an unfailing beacon, lighting the way toward the management issues of tomorrow. Whatever small amount of managerial relevance and thoughtful foresight we achieve in this book owes much to Professor Drucker's shining example.

Our editor at the Harvard Business School, Carol Franco, deserves much credit for this book. It was her encouragement, as well as her penchant for deadlines, that ensured the project was completed before the turn of the millennium. Karen Moss, Gary Hamel's able assistant

at the London Business School, did a heroic job of keeping the world at bay, thus creating time for writing. Thanks are also due Mark Bleakley, a Ph.D. candidate at the London Business School who provided substantial research support.

Most of all we must thank our wives, who exercised a degree of forbearance far beyond that which we had any right to expect. The demands of producing this book often pushed family responsibilities into second place. The unfailing enthusiasm and support of ElDona and Gayatri made us feel less guilty than we should have. To them goes our biggest and most heartfelt "Thanks!"

Contents

1

Getting Off the Treadmill

Look around your company. Look at the high-profile initiatives that have been launched recently. Look at the issues that are preoccupying senior management. Look at the criteria and benchmarks by which progress is being measured. Look at the track record of new business creation. Look into the faces of your colleagues and consider their dreams and fears. Look toward the future and ponder your company's ability to shape that future and regenerate success again and again in the years and decades to come.

Now ask yourself: Does senior management have a clear and broadly shared understanding of how the industry may be different ten years in the future? Are its "headlights" shining further out than those of competitors? Is its point of view about the future clearly reflected in the company's short-term priorities? Is its point of view about the future competitively unique?

Ask yourself: How influential is my company in setting the new rules of competition within its industry? Is it regularly defining new ways of doing business, building new capabilities, and setting new standards of customer satisfaction? Is it more a rule-maker than a rule-taker within its industry? Is it more intent on challenging the industry status quo than protecting it?

Ask yourself: Is senior management fully alert to the dangers posed by new, unconventional rivals? Are potential threats to the current business model widely understood? Do senior executives possess a keen sense of urgency about the need to reinvent the current business model? Is the task of regenerating core strategies receiving as much top management attention as the task of reengineering core processes?

Ask yourself: Is my company pursuing growth and new business development with as much passion as it is pursuing operational efficiency and downsizing? Do we have as clear a point of view about where the next $10 million, $100 million, or $1 billion of revenue growth will come from as we do about where the next $10 million, $100 million, or $1 billion of cost savings will come from?

Ask yourself: What percentage of our improvement efforts (quality improvement, cycle-time reduction, and improved customer service) focuses on creating advantages new to the industry, and what percentage focuses on merely catching up to our competitors? Are competitors as eager to benchmark us as we are to benchmark them?

Ask yourself: What is driving our improvement and transformation agenda—our own view of future opportunities or the actions of our competitors? Is our transformation agenda mostly offensive or defensive?

Ask yourself: Am I more of a maintenance engineer keeping today's business humming along, or an architect imagining tomorrow's businesses? Do I devote more energy to prolonging the past than I do to creating the future? How often do I lift my gaze out of the rut and consider what's out there on the horizon?

And finally: What is the balance between hope and anxiety in my company; between confidence in our ability to find and exploit opportunities for growth and new business development and concern about our ability to maintain competitiveness in our traditional businesses; between a sense of opportunity and a sense of vulnerability, both corporate and personal?

These are not rhetorical questions. Get a pencil. Rate your company.

How does senior management's point of view about the future stack up against that of competitors?

Conventional and Reactive	•	•	•	•	•	Distinctive and Far-sighted

Which issue is absorbing more of senior management's attention?

Reengineering Core Processes	•	•	•	•	•	Regenerating Core Strategies

Within the industry, do competitors view our company as more of a rule-taker or a rule-maker?

Mostly a Rule-taker	•	•	•	•	•	Mostly a Rule-maker

What are we better at, improving operational efficiency or creating fundamentally new businesses?

Operational Efficiency • • • • • New Business Development

What percentage of our advantage-building efforts focus on catching up with competitors versus building advantages new to the industry?

Mostly Catching Up to Others • • • • • Mostly New to the Industry

To what extent has our transformation agenda been set by competitors' actions versus being set by our own unique vision of the future?

Largely Driven by Competitors • • • • • Largely Driven by Our Vision

To what extent am I, as a senior manager, a maintenance engineer working on the present or an architect designing the future?

Mostly an Engineer • • • • • Mostly an Architect

Among employees, what is the balance between anxiety and hope?

Mostly Anxiety • • • • • Mostly Hope

If your marks fell somewhere in the middle, or off to the left, your company may be devoting too much energy to preserving the past and not enough to creating the future.

We often ask senior managers three related questions: First, what percentage of your time is spent on external, rather than internal, issues—understanding, for example, the implications of a particular new technology versus debating corporate overhead allocations? Second, of this time spent looking outward, how much of it is spent considering how the world could be different in five or ten years, as opposed to worrying about winning the next big contract or how to respond to a competitor's pricing move? Third, of the time devoted to looking outward *and* forward, how much of it is spent in consultation with colleagues, where the objective is to build a deeply shared, well-tested view of the future, as opposed to a personal and idiosyncratic view?

The answers we get typically conform to what we call the "40/30/20 rule." In our experience, about 40% of senior executive time is spent looking outward, and of this time, about 30% is spent peering three, four, five, or more years into the future. And of the time spent looking forward, no more than 20% is spent attempting to build a collective view of the future (the other 80% is spent looking at the future of the manager's particular business). Thus, on average, senior management is devoting less than 3% ($40\% \times 30\% \times 20\% = 2.4\%$) of its energy to building a *corporate* perspective on the future. In some companies the figure is less than 1%. As a benchmark, our experience suggests that to develop a prescient and distinctive point of view about the future, a senior management team must be willing to spend about 20 to 50% of its time, over a period of several months. It must then be willing to continually revisit that point of view, elaborating and adjusting it as the future unfolds.

It takes substantial and sustained intellectual energy to develop high-quality, robust answers to questions such as what new core competencies will we need to build, what new product concepts should we pioneer, what new alliances will we need to form, what nascent development programs should we protect, and what long-term regulatory initiatives should we pursue. We believe such questions have received far too little attention in many companies.

They have received too little attention not because senior managers are lazy; most are working harder than ever. Stress, burnout, and perpetual jet lag are less occasional occupational hazards than a way of life for most executives today. It is not even the sheer, bloody, time-consuming difficulty of answering these questions that scares top teams off. These questions go unanswered because to address them senior managers must first admit, to themselves and to their employees, that they are less than fully in control of their company's future. They must admit that what they know today—the knowledge and experience that justify their position in the corporate pecking order—may be irrelevant or wrong-headed for the future. These questions go unanswered because they are, in a sense, a direct challenge to the assumption that top management really is in control, really does have better headlights than anyone else in the corporation, and already has a clear and compelling view of corporate direction. So the urgent drives out the important; the future goes largely unexplored; and the