In 1994, when Gary Hamel co-authored “Competing for the Future” (Harvard Business School Press) with his long-time friend, collaborator and former professor, C.K. Prahalad, it was something of a publishing event. The book not only sold briskly and was named one of the best of the year in business, but it also changed much of the debate about how to set strategy.

Instead of advocating a top-down approach, Mr. Hamel, who is a visiting professor at the London Business School, and Mr. Prahalad, a professor at the University of Michigan, proposed that strategy should be set in a dialogue involving all levels of a company. Moreover, they argued that when companies set their strategic course, they ought to include younger employees and even dissidents in the process.

Since the book appeared, Mr. Hamel, who is 43 years old, has continued his writing and speaking activities and has also founded a consulting firm called Strategos. While the focus of his earlier work was on core competencies, strategic intent and “stretch,” his most recent efforts have concentrated on innovation and creating a “new sense of self” within a business.

What does this new sense of self enable a company to do? It empowers people within the company to “stare down their orthodoxies and determine that they are not going to be bound by them anymore,” Mr. Hamel says. The aim is to help companies create revolutionary strategies to keep them permanently ahead of the competition, he explains.

Staying ahead by being revolutionary is easier said than done. It requires a depth of insight that most companies depend on when they are young but lose when they age. In Mr. Hamel’s view, even highly competitive companies can develop blind spots. When that happens, they can lose out to newer challengers. In industries as diverse as retailing, soft drinks, computers and airlines, successful, old-line companies have watched helplessly as younger ones have moved onto the scene and built up markets.

The reason for a company’s blindness, Mr. Hamel argues, “is an unwillingness or inability to look outside of current experiences.” Helping companies cure that type of blindness has been the latest focus of his work.

What follows are excerpts from a recent conversation with Mr. Hamel that took place at his office in Menlo Park, Calif.

Joel Kurtzman is the editor-in-chief of Strategy & Business.
S&B: You have developed an approach to future growth that you call Next Step Strategy or Revolutionary Strategy. What does it mean and why is it needed? And how does one become a revolutionary strategist?

GARY HAMEL: In an increasingly non-linear economy, incremental change is not enough — you have to build a capacity for strategy innovation, one that increases your ability to recognize new opportunities. And the opportunities for future growth are everywhere. Seeing the future has nothing to do with speculating about what might happen. Rather, you must understand the revolutionary potential of what is already happening.

And to do that, you must yourself become a revolutionary, embracing three fundamental and related perspectives.

The first is to systematically deconstruct the orthodoxies and dogmas that rule a business. When people sit down and think about strategy, too often they take 90 or 95 percent of industry orthodoxies as a given and as a constraint. Instead, they must stare down their orthodoxies and determine that they are not going to be bound by them anymore. In effect, in looking for new directions, they are simply not going to start with the same old starting point.

The second perspective is to develop a deeper sense of self, one that frees a company to do something that it would not have conceived of doing or making before, because it was imprisoned within a narrow definition of its product market domain. What is the knowledge or the core competence that we have and what else can we do with it? How do I get it out of the prison where it may be languishing?

And the third fundamental lens is understanding the discontinuities in the environment that can be leveraged for remaking the structure of an industry to our advantage. As I said, the goal is to understand what has already changed, and to identify the revolutionary portent in those changes.

S&B: Why don’t we start at your starting point, with the attack on dogmas?

GARY HAMEL: You know, the definition of a revolutionary is someone who challenges the prejudices and the dogmas of the incumbent. So, in that sense, the future is more often created by heretics than it is by prophets. It is very much about seeing what is already there and being willing to turn around and say, now what?

For example, look at what the companies did that led the H.M.O. revolution in health care. They took what were regarded as the critical success factors in the hospital industry — maximizing the number of patient days and procedures — and turned them upside down. From now on, they said, winning means minimizing those things. And clearly all the big, fat happy teaching hospitals had enormous trouble responding to that.

Or look at Anita Roddick, the founder of the Body Shop. She watched which way the cosmetics industry was going and walked in the other direction. In packaging, positioning, branding, pricing, promotion — literally everything got changed.

So, challenging the status quo has to be the starting point for anything that goes under the label of strategy.

S&B: But do you challenge the dogmas if they are working? Suppose you’re United Airlines, or Southwest, and you’re doing just fine, thank you.

GARY HAMEL: It’s a bigger point.

What you’re constantly asking is, what part of this is orthodoxy and what part of this is gravity. We’re not going to reverse the laws of orthodoxy right away. In the airline industry, you still have to put the passengers in a metal tube to get them from A to B. We don’t yet know how to overcome that particular orthodoxy.

So you do have to make that distinction. Interestingly, though, when you look at the history of industry revolutionaries, they typically challenge what most people in the business would have thought of as gravity. For example, one of the basic assumptions in the banking industry for years and years was that we, as individuals, were savers, not investors. There was a deep assumption about whether we were willing to take risk or not. And obviously, as we now see from the mutual fund industry, there are a lot of people out there who at some level are willing to take risk.

On the question of being an industry revolutionary, there is another distinction to be made. The goal is to create a movement in your company — a movement that unleashes strategy innovation — while creating a revolution in your industry. And there’s quite a difference between movements and revolutions.

When you look at movements, you
see the women’s movement, you see civil rights, you see the quality movement in companies, and what is usually the case is that everybody wins. It is not about, “We’re going to win, you’re going to lose.” As women have more rights and have more opportunities, we are winners as human beings, and the same with civil rights. So in that sense, a movement is about involvement and getting people excited about the chance to create the future.

But in a revolution, there are winners and losers. The British lost in the American revolution. As competitors, we hope that everyone else is going to lose.

That is an important distinction. Because while you want some revolutionary goals, you are also going to have to take some evolutionary steps. Particularly in a successful organization, you can’t simply turn over everything that you might want to. The challenge is always to distinguish between the part of what we know that we must jettison and the part of what we know that is the path to the future.

**S&B:** When it comes to understanding the effect on an industry, how can you tell the difference between a change that is a revolution and one that is just an evolution?

**GARY HAMEL:** At what point does it stop being evolutionary and start becoming revolutionary? I’ll give an example.

Clorox has been one of the highest-performing companies in the consumer packaged goods industry over the last decade. One of the things it did that might seem unimportant to an outsider was to figure out how to put fragrances into bleach, so the bleach didn’t stink anymore. Before that, using bleach was a pretty unpleasant experience. So the change has driven category growth — something that had been absolutely flat has been growing very, very strongly.

To an outsider, that’s evolutionary. But the assumption in that industry for years and years and years was that bleach was bleach and you couldn’t change it. What Clorox did was very revolutionary within that product framework.

**S&B:** If you were trying to coach another commodity producer to follow in Clorox’s footsteps, what would you say?

**GARY HAMEL:** One of the fundamental things is to distinguish between function and form. Products typically have a familiar form and function, but what are the other forms in which they could be delivered? Must bleach come in a plastic container, making it stink? Can it be taken home in a box, in ultra-concentrated form, or whatever? Does music have to be purchased via CD’s, or can it be pulled off the Net?

The way you get people to think about orthodoxies is you look at things like the value chain. Does it have to be structured in that way? You look at basic product features and attributes. Do these have to be delivered in the way we’re delivering them? You look at the basis on which people have chosen to segment the industry. Is there a different way of doing that? You look at the parameters of competitive differentiation that are being used. Are there other parameters? You look at the assumptions people have made about who is and who isn’t the customer.

For example, one of the assumptions at most car companies is that you are not a customer until you have a driver’s license. But why aren’t these companies offering driver’s education for 15-year-olds and winning their loyalty early?

**S&B:** In terms of developing a new product or market, the Japanese often rely on customer feel, the sort of passive or implicit relationship between a product and a person. Is that an element in this?

**GARY HAMEL:** No. Being customer-
blindness can even affect an entire industry because most companies in an industry are blind in the same way."

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Whereas the future-oriented challenge is to understand the unarticulated needs, especially of new kinds of customers. Indeed, creating the future is very seldom about responding to articulated needs. It's understanding deep-down frustrations and anxieties that people have, and creating new alternatives for them.

The marketing function is about the worst possible conduit for bringing insight to this process, because marketing — particularly through the use of market research — tends to be a prisoner of the existing product concept. And it tends to focus on existing kinds of customers.

The only solution here is to put development people right up against customers, to live with them, breathe with them, understand their frustrations. Then you have the chance of developing deeper insights.

You have to take off the blinders, as it were. The problem with most companies today is not that they're fat and inefficient or that they're lazy, because most of them, as we all know, are downsizing and working on re-engineering. So the fat and the laziness are being addressed.

My argument is that companies are often blind, and that it is a genetic problem, making blinders a bigger challenge than mere inefficiency. Blindness can even affect an entire industry because most companies in an industry are blind in the same way.

Coca-Cola is a fine company, but it didn't latch on early to the opportunity for either sports drinks or adult teas. That's not because the company is fat and lazy.

So, you can't really be creative until you begin to remove those scales.

S&B: What causes the blindness?

GARY HAMEL: The deepest reason is an unwillingness or inability to look outside of current experiences. It's the whole set of definitions that grew up over time in a company about what business we're in, what customers we serve, what are the bases for differentiation, where do we take value out of the value chain, who are our competitors. And over time in an industry, you get convergence around those things. Why? Because everyone is going to the same trade shows, reading the same industry magazines, talking to the same consultants and trading mid-level to lower-level managers back and forth. People are spending all of their time focused on somebody else — watching I.B.M. or, if they are at I.B.M., watching Microsoft — rather than sharpening their own view of the world. And traditional consulting companies, which often transfer the same basic lessons across many companies in an industry, substantially increase the tendency toward strategy convergence, driving companies to price competition. So while consumers may benefit in the short run, they lose the benefits of innovation. It may be these consulting firms, more than companies like Wal-Mart, that consumers should thank for brutal price competition.

A lot of this is not simply blindness; a lot of this is denial. Yes, we see it, but it is so uncomfortable that we can't admit to it. And, typically, that denial is strongest at the top of the company.
I have talked in the past about the need for gene replacement therapy for top management.

**S&B:** And dealing with the blindness involves the second perspective, of looking deeply within to find hidden knowledge?

**Gary Hamel:** Yes. Deconstructing the orthodoxies provides a means of escaping the myopia of a product market definition of a company. Escaping that myopia puts you in touch with the deeper capabilities that I call core competencies.

For example, if you ask the managers of an accounting company about their core competencies, they will tell you about the relationships they manage with C.F.O.’s and their understanding of the rules of the Financial Accounting Standards Board and of the tax code.

And I would say to them, “Wait a minute. The deep thing you know how to do is to attest to the accuracy of numerate information, particularly in cases where more than one party has an interest in that information and where these parties have asymmetric access.” Classically, the parties were management and shareholders. They both want to know the truth, but they have very different kinds of access and that is why we have auditors.

Where else does this skill come into play? J.D. Power attests to auto reliability, where auto buyers and auto producers are the interested parties. And A.C. Nielsen keeps busy counting how many people are watching “Seinfeld.” Those opportunities would have been open to accounting companies if they had had this deeper self-concept.

**S&B:** How do you identify core competencies?

**Gary Hamel:** A lot of companies try to build the picture bottom up, by looking at the capabilities of individuals, at the specific skills of those in the work force. But it can’t be done that way. If you build up from the individuals, it’s extremely difficult to escape the narrow view of product market, because if you started as an accounting company, you say, “Well, what do our people know? They know accounting rules — they don’t understand anything else.”

Core competence identification has to be top down. That doesn’t mean that top management must do it. It has to be top down in the sense that you are looking for encompassing things, not simply building up from existing hills.

Put another way, the goal is to discover transcendent capabilities, and not generate a laundry list of technologies and functions. You are trying to find capabilities that transcend the traditional boundaries in an organization. When you talk about wireless at Motorola, or miniaturization at Sony or logistics at FedEx, these are things that you can’t put in one function or one category.

The problem is that a lot of companies have done this work, but from the bottom up. And they have ended up restating their business in only a slightly different way.

They have missed the payoff that comes from a true definition of core competencies, which should produce a deep conception of who we are as a company.

**S&B:** So, simply labeling and identifying what we are and who we are changes what and who we are? If you put your finger on the capabilities within the company, you by definition are changing what the company is?

**Gary Hamel:** You’re certainly changing your perception of who you are. Searching for the essence of competence is always a redefinition of the deepest sense of self in a corporation.

**S&B:** Have you observed that? Do you know of a company that has dug inside itself from the top down to find out what its competencies are? And by that fact redefined itself?

**Gary Hamel:** Let me give you a couple of examples.

I just came back from Australia, where someone told me a very interesting story about a company that had been in the transportation business and understands logistics, moving goods, packaging them and managing that whole flow.

That company moved into the hospital business, where it is the most successful operator of hospitals in the country. It was a good fit because a big part of making a hospital run successfully is logistics — moving patients, moving all the materials and supplies in and out, and tracking that in real time and minimizing the cost of all of those flows.

And people from the company came up to me and said that they had done this internal core competence exercise and that this is what had come out and it had worked for them.
Another example is EDS. When we started doing work there, their definition of competence was all wrapped up in information technology. More specifically, in computers.

One of the groups that was looking at competence said, “Wait a minute. We have this competency called outsourcing data. But if you scrape away and try to get down to the essence, what you find is that we are extremely good at building organizational bridges. When we come in and take over the data center in a company, suddenly it’s EDS people sitting in the client’s facilities.”

So, there is this whole capability to blend two organizations together as you help them manage a part of their operations. Then you say, “Gee, why does that have to be limited to running data centers? Why can’t we run the 800-number customer support line? Essentially, what you’re trying to do is search for the deep knowledge that underlies the superficial thing you do.

**S&B:** I’m glad you brought up knowledge. There’s an increasing focus on knowledge these days. And yet the role that it should play in fashioning strategy is not very clear.

**GARY HAMEL:** Most of the stuff that’s been written about knowledge falls into one of two categories.

There’s quite a bit that’s about the process of knowledge accumulation, but it tends to focus on gains that are incremental, that occur along existing trajectories of knowledge creation. A steel mill learns how to make steel even cheaper or even faster or whatever. And that’s very closely related to continuous improvement and kaizen and those kinds of things.

Secondly, there’s a lot of work on getting to that deeper essence gets EDS beyond computer outsourcing. It’s maybe not even outsourcing in a traditional sense in that you have to take their assets on your books or whatever. It is an ability to manage these deep relationships across organizational boundaries.

Or why can’t we run something else for them?”

Getting to that deeper essence has EDS beyond computer outsourcing. It’s maybe not even outsourcing in a traditional sense in that you have to take their assets on your books or whatever. It is an ability to manage these deep relationships across organizational boundaries.

The big assumption is that the most important knowledge can be codified, which is an interesting assumption.”

**S&B:** What is the second thorny problem with knowledge?

**GARY HAMEL:** That has to do with the ability to integrate very disparate kinds of knowledge. You create value when...
you apply fundamentally new knowledge to old problems, and in the process displace the existing knowledge foundation. But the second way of creating value comes from synthesizing discrete kinds of existing knowledge.

You see this happening today in the automobile industry, where we’re marrying electronics and communications in products that are ever more complex and systemic. One of the German auto makers now has a plan to link air-bag deployment to a locator signal and to an automatic call to 911. Not too long ago, the company had to worry only about mechanics. Now, it has to worry about advances in electronics and other fields and how to synthesize these changes into new higher-order solutions.

When you think about synthesizing discrete kinds of knowledge, one simple example that everybody can relate to is Swatch, which successfully rebuilt the Swiss watch industry with inexpensive products. What do you know how to do in Switzerland? You know how to make expensive things out of jewelry and market them. You have a reputation for quality.

Swatch embraced fashion as a new piece of knowledge in the industry. Fashion formerly had meant a very expensive piece of jewelry. Now it meant very clever, compelling design. And it meant synthesizing a number of things in a number of different places.

With all due respect to the Swiss, if you want to build a fashion competence, you don’t start in Switzerland. The Swiss are not known for their fashion sense. So you import skills from Milan.

To make these new watches out of plastic is an interesting challenge, because you know all about metal bending but you don’t know about injection molding and ultrasonic welding. So you form a relationship with Lego in Denmark to learn about that.

So you take fashion from Italy, plastic injection molding from Denmark, the Swiss reputation for quality and you put those things together in a product that nobody could have done on the basis of home country knowledge only.

This is knowledge synthesis and it is becoming more important as products and services become more complex and more system-like. It is a kind of hybridization. The process of putting things together creates in itself a new knowledge. And so the process goes on. But it’s not simply stitching together pre-existing components. This is not plug and play. It’s trying to meld very different kinds of knowledge and capabilities, and therefore typically very different kinds of people and values.

**S&B:** And the third thorny problem?

**GARY HAMEL:** Harnessing the great potential in globalizing local knowledge. Being global has meant transferring knowledge in the form of products that are easily moved around the world. Examples would be Coca-Cola or cellular telephones, where most of the knowledge you need to move is embodied in the thing itself.

Now we’re getting to the point where we’re beginning to see the globalization of service industries, where knowledge is not embodied in a kind of universal thing, and this makes the problem of globalizing knowledge much, much more subtle. All you have to look at is the trauma that Disney went through in Europe. Or the huge losses of Federal Express, also in Europe. In other words, what you sometimes see are local heroes and global losers — because what they’re trying to move globally is very subtle systemic knowledge.

If I have operated in the United States for 50 years, how can I really understand what part of my rules, my procedures and my approaches are universally applicable and what part are wrapped up in my own domestic culture? What you saw with Disney was the painful process of trying to separate what is universal from what is idiosyncratically American. How do I know the difference, when my cultural understanding stops at the Atlantic Ocean?

You can argue there is no simple, easy way to do that. It is always going to be painful. You can probably reduce the risk by starting with a bit of humility, but nevertheless it’s going to be difficult. You have to build some very sophisticated cultural bridges, and most bridges take a decade or more to build.

**S&B:** Besides mastering these three knowledge processes, there is still the matter of freeing up the knowledge we already have that is buried deeply inside something else. Once we have freed it — and found our core competencies — how do we use it?

**GARY HAMEL:** That brings us back to where we started.

If you look at the companies that have created a revolution in their in-
A company must also understand the discontinuities in the environment that offer new opportunities — and that is a perception that comes more easily to an outsider.

Industries, they are often not the incumbents.

If you look at the grocery industry, it was not just Kroger and P&G, and so on that were creating the new value. It was Peapod and Starbucks and Petco and Boston Market.

If you look at the automobile industry, it has not necessarily been Ford and Chrysler, but Auto-By-Tel or CarMax or AutoNation.

The reason that so many incumbents are being left behind goes beyond a failure to overcome orthodoxies and to develop a deeper sense of self. A company must also understand the discontinuities in the environment that offer new opportunities — and that is a perception that comes more easily to an outsider.

Look at CNN and its creation of global news. It saw at least three things that had already changed in our world that others had not yet put together. One was that you could put a satellite uplink in a suitcase, and you could send teams out anywhere in the world to get the story out quick and fast, as Peter Arnett did in Iraq. It also saw a change in lifestyles — we don’t all get home at 6:30 — which meant that a different type of scheduling was required to meet the needs of the customers. And finally it saw changes in the regulatory environment, allowing cable operators to undermine the monopoly of regional broadcasters.

Those were all discontinuities. Those were the things that were already changing. It just needed someone to come along and recognize how these discontinuities could be shaped into something new. Seeing the future is not all forecasting and it is not all scenario planning. It is not about waiting to see if environmental legislation goes this way or technology goes that way. It is imagining what you can make happen given what is already changing.

S&B: That means everyone has access to the future, doesn’t it? That we view it today from the same level playing field?

GARY HAMEL: There are no proprietary data about the future. By all means, listen to what Nick Negroponte and others have to say — but you must recognize that every one of your competitors is hearing the same thing. So the fundamental question becomes, how do I build proprietary foresight out of public data?

Now, I can’t go into all the ways of doing that here. But one way of building private foresight out of public data is looking where others aren’t. It’s not that the data don’t exist. It’s that people in an industry are all blind in the same kind of way. So if you want to see the future, go to an industry confab and get the list of what was talked about. Then ask, “What did people never talk about?” That’s where you’re going to find opportunity.

I talked recently to 200 utility executives, and I started out by saying, “You guys have nothing to teach each other. You’ve been reading the same journals and going to the same industry shows forever. So what are you going to learn from each other? Now, if I could draw a third of this group from financial services, a third from utilities and a third from telecommunications, then we could have an interesting conversation.” That’s because the utilities industry needs to understand how to price and manage risk, which is what they have learned how to do in financial services. And the telecommunications industry has already been confronting the issues of deregulation — splitting the network from the distribution — that the utilities are now dealing with.

My fundamental belief is that if a company wants to see the future, 80 percent of what it is going to have to learn will be from outside its own industry.

S&B: How would you organize that effort?
**GARY HAMEL:** What you might want to do is to organize it around major classes of discontinuities. Who really understands where technology is going? Who understands new work styles or regulation or whatever else? We live in a world where industry boundaries are like borders in the Balkans. So “industry” has become a trivial and unimportant word for the most part.

I would argue that if you look through the three lenses we have been talking about — debunking orthodoxy, defining competency, exploiting discontinuity — you will illuminate opportunities for industry revolution.

Now, I’m sure there are other lenses. Those are the ones that I work with, and I’m familiar with. If you get some reasonable percentage of an organization looking at themselves and their world through those kinds of lenses, you will dramatically increase the odds of seeing the potential for creating new wealth.

**S&B:** Now, the big question. What we have been talking about are the lenses, not the process. How does all this relate to the strategy process?

**GARY HAMEL:** Over the last 10 or 15 years, we’ve had a lot of innovation in the concepts of strategy, an endless barrage of different things to worry about, almost concept overload.

What we have not seen is any appreciable innovation in the process of strategy in 25 years. The planning approaches that most companies use have not changed at all.

We are working in organizations now where we are creating strategy with 5,000 people. We believe deeply in the democratization of strategy, in every employee’s right to have a share in the destiny of the organization.

But we do not believe for a minute that every employee has the same value to add. Creativity is widely and randomly distributed, but it isn’t evenly distributed.

So we know for sure that top management has some tiny proportion of the creative potential of the organization, and therefore top management must give up its monopoly on strategy creation. But not every voice deserves to be heard. That’s why we use the metaphor of democracy. The powerful idea in democracy is not one person, one vote. There are a whole lot of people out there who are not well enough informed to deserve the vote.

Rather, the power of democracy is that you can have an influence that is all out of proportion to your vote. And that is how social systems get changed. Martin Luther King had one vote. Susan B. Anthony probably had no vote when she started. Jesse Jackson has one vote, as does Rush Limbaugh.

In the same way, strategy has to be driven by activists in an organization. Because we know that is how great institutions change. They do not change from the top down. This extraordinary arrogance that change must start at the top is a way of guaranteeing that change will not happen in most companies.

If you begin to play that out, it leads inevitably to a very different kind of strategy process than we’ve had.

**S&B:** Well, the people at the top are generally the last to know how sick the organization is. If you go down a couple of levels and talk to people deeper in the organization, you find it out day one.

**GARY HAMEL:** The best-selling management book in history is not “In Search of Excellence” or “Computing for the Future.” It’s “The Dilbert Principle.” If you read it, you see enormous cynicism.

To me, the No. 1 management problem in America today is that we have a work force that has had to pay a disproportionate price for the strategic mistakes of top management.

And the challenge is how do you reconnect these people emotionally and intellectually to the company. One of the ways you do that is you tell them, “Guys, we’re going to put the future in your hands. We’re going to ask you to get involved.”

I was inside a company recently that had a re-engineering project. About 20 percent of the people were facing the ax. Top management said to those individuals, “You have a choice here. You could sit here and this project will play itself out and 20 percent of you will lose your jobs. Or you could pick up the challenge of creating new opportunities for this company, and if you succeed in that, we’ll take all the efficiency savings that come out of the re-engineering and we’ll invest it in your future. But it’s your choice.”

And you know, most people are eager to take up that challenge.