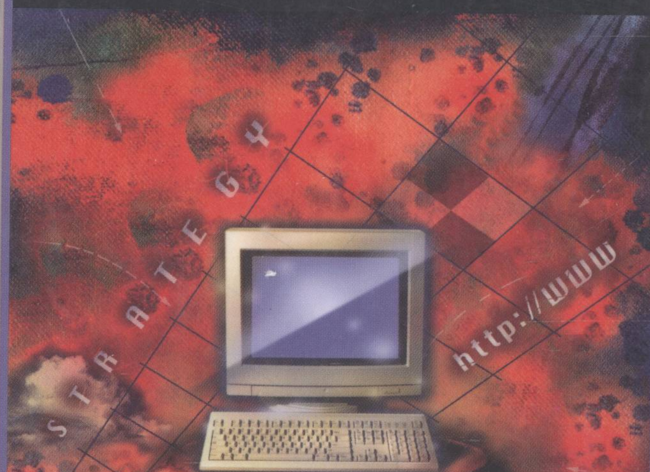
INSIGHTS: READINGS IN STRATEGIC MANAGEMENT



2nd Edition

MICHAEL A. HITT
R. DUANE IRELAND
ROBERT E. HOSKISSON

Edited by
TIMOTHY B. PALMER

INSIGHTS: READINGS IN STRATEGIC MANAGEMENT

2nd Edition

MICHAEL A. HITT
Texas A&M University

R. DUANE IRELAND
Baylor University

ROBERT E. HOSKISSON
Texas A&M University

Edited by
TIMOTHY B. PALMER
Louisiana State University

WEST PUBLISHING COMPANY
Minneapolis/St. Paul New York Los Angeles San Francisco

WEST'S COMMITMENT TO THE ENVIRONMENT

In 1906, West Publishing Company began recycling materials left over from the production of books. This began a tradition of efficient and responsible use of resources. Today, 100% of our legal bound volumes are printed on acid-free, recycled paper consisting of 50% new fibers. West recycles nearly 27,700,000 pounds of scrap paper annually—the equivalent of 229,300 trees. Since the 1960s, West has devised ways to capture and recycle waste inks, solvents, oils, and vapors created in the printing process. We also recycle plastics of all kinds, wood, glass, corrugated cardboard, and batteries, and have eliminated the use of polystyrene book packaging. We at West are proud of the longevity and the scope of our commitment to the environment.

West pocket parts and advance sheets are printed on recyclable paper and can be collected and recycled with newspapers. Staples do not have to be removed. Bound volumes can be recycled after removing the cover.

Production, Prepress, Printing and Binding by West Publishing Company.

TEXT IS PRINTED ON 10% POST CONSUMER RECYCLED PAPER

Printed in the United States of America
04 03 02 01 00 99 98 97 8 7 6 5 4 3 2 1 0

ISBN 0–314–20773–2

▲ PREFACE ▲

To manage effectively in the new competitive landscape of the 21st century, students must develop skills in critical thinking, problem solving, teamwork, and communication. They must be able to understand and translate valuable management concepts into practice. For these reasons, we have developed this collection of readings to accompany *Strategic Management: Competitiveness and Globalization*.

This book has been developed to supplement *Strategic Management* in order to highlight the application of important strategic management concepts. These readings from the contemporary business press provide useful insights on how top level managers apply the critical concepts described in *Strategic Management* in the normal conduct of their jobs. They make the concepts come alive and help promote learning. Furthermore, they provide an excellent basis for classroom discussion and will contribute to the skills noted above that are critical for current students to experience successful careers.

The readings are organized by chapter topics, although many of them also provide insights on other important strategic management topics. The readings are interesting and have impact. We commend this book to you.

We would like to thank Dr. Timothy Palmer for his invaluable assistance in selecting theses readings. We are also indebted to Brent Gordon, Erin Byle, and Susan Thompson-White at West Educational Publishing for their excellent support and help on this project.

Michael A. Hitt

R. Duane Ireland

Robert E. Hoskisson

▲ TABLE OF CONTENTS ▲

Going for Growth

Many Firms See Gains
of Cost-Cutting Over,
Push to Lift Revenues

But They Find Expansion
into New Products Risky;
Some Set off Price Wars

Pressures from Wall Street

By Fred R. Bleakley
Staff Reporter of *The Wall Street Journal*

Cynics may dismiss it as the corporate mantra of the month, but growth is the talk of executive circles these days.

After years of restructuring, downsizing, rightsizing or, perhaps, dumbsizing, many American companies are concluding that cost-cutting isn't enough. They need to rev up revenues.

But many executives are discovering how hard it can be to walk the talk.

Some companies, such as Airborne Freight Corp., have tried to grow by cutting prices, only to ignite price wars. Some, such as Unisys Corp., have tried to reposition themselves in faster-growing industries, only to find competition so intense that profits are elusive. Some, such as Nabisco Holdings Corp., have tried to extend core products, only to be hurt by the cost of creating too many variations and cannibalizing their own sales. And some, such as Abar Ipsen Industries Inc., have tried globalization, only to learn that cracking foreign markets can be the toughest strategy of all.

Many Disappointments Likely

As U.S. companies again push for growth, many are going to find it more elusive than ever and be disappointed, some experts worry. Among the worriers are some consultants who have been leading exponents of growth. Dwight Gertz, a vice president at Mercer Management Consulting Inc. and author of a recent book, "Grow to Be Great," sees a frenzied push that, at best, will result in a "zero-sum game," with some companies simply taking growth from others.

One measure of the difficulty of going from cost-cutting to revenue-growing, Mr. Gertz adds, was a Mercer Management study of 800 major U.S. companies. It found that 145 of them used cost-cutting to reach profit levels above their industry average in the late 1980s. But only 34, or 23% of those firms, made the switch to above-average revenue growth as the catalyst for above-average profits by 1995.

The economy's slow expansion in the 1990s helps explain why corporate growth is so hard but also so necessary, especially in mature industries. So far in the decade, U.S. gross domestic product has increased at only a 1.78% average annual rate, down from 2.77% in the 1980s.

Proliferating Products

Evidence of troubled growth strategies abounds. In the past 30 months, Nabisco has turned out a slew of new products, mostly variations of its existing brands, but at enormous cost. Its sales rose 8% last year, but net income only 2%. Now, just two years after taking a $153 million streamlining and restructuring charge, the Parsippany, N.J., food giant recently announced an even bigger charge -- more than $300 million. With its new plan to cast off hundreds of brand variations and sizes and 4,200 employees, Nabisco is, to some extent, throwing in the towel on its brand-extension strategy to focus on core products. It is returning to restructuring tactics to try to enhance profits.

"Boosting profits through downsizing was easy; all executives had to do was take the heat from layoffs," says G. William Dauphinais of Price Waterhouse's consulting group. The questions now, he says, are whether executives skilled at cost-cutting are also skilled at revenue-raising, and, even if they are, whether profit growth will be equally strong.

A deeper problem at many companies is the fuzzy but important issue of changing a corporate culture from one that rewards the certainties of downsizing to meeting the risks inherent in expansion. However, many companies, though locked in the downsizing mind-set, may have little choice but to take the risks. Just as Wall Street's demands have nudged them to cut costs, the financial community now is generating much of the clamor for growth.

"Wall Street won't pay anymore for raising profit margins on a stagnant sales base," says Pankaj Ghemawat, a Harvard Business School professor. "The crucial issue has become how far does a company stretch for growth."

Setting Off a Price War

At Airborne Freight, going for growth was simply a matter of offering air-freight customers the lowest rates around. The carrier could afford to do so because its costs were the lowest in the industry. But as low prices helped Airborne Express (as its service is known) gain market share, competitors such as Federal Express Corp., the industry leader, struck back. The upshot: several years of an on-again, off-again price war that lasted until mid-1995. "As they went after our customers, we went after theirs, first with aggressive pricing and then with more services and extended contracts," says Jerry Cameron, Airborne's vice president of corporate accounts. By the time the war was over, the industry's prices were 20% below Airborne's original rate.

"No one wins a price war. You just try to hang on and survive," Mr. Cameron says. "We ended up exchanging customers at lower yields." Lately, prices have been rising, but Airborne's profit margins still haven't regained prewar levels.

A major challenge facing many managements is to balance the need for significant new-product innovation with the need to keep expansion from running amok. Despite promising market research, most new products fail.

Half of those launches don't reach sales goals, says Jerome Colletti of the Alexander Group, because of how they are sold. "A common pitfall," says the president of the Scottsdale, Ariz., consulting firm, "is to assume a new product can be sold effectively by the current sales force." Mr. Colletti says just as much time should be spent in choosing the right sales team, compensation program and sales approach as in choosing customer prospects.

Also important is the choice of where to pursue growth. Related, fast-growing industries are obvious candidates, but success often depends on the level of competition already there or gearing up.

In the case of the rapidly growing business of helping customers set up and maintain computer systems, Unisys is finding a lot more growth than it is getting from its stagnant mainframe business. Chairman James Unruh told Wall Street analysts in February that as traditional businesses have "matured," new businesses whose revenues are climbing at double-digit percentage rates have gone from 15% of total revenue of $6.6 billion in 1992 to 42% of $6.2 billion in 1995.

Missing Profits

But although Unisys says it has found a competitive niche, it isn't making any money in the cutthroat business of servicing computer networks. Its prime weapon in winning jobs has been low-priced, sometimes unprofitable, multiyear contracts. At such prices, well-entrenched service units of Electronic Data Systems Corp. and International Business Machines Corp. choose not to compete, analysts say.

"The question is, what kind of growth would Unisys' growth engine be showing if it priced to the market with margins equal to EDS and IBM," says John Jones Jr. of Salomon Brothers Inc. "Maybe not 30% a year," as has been the case for several years, he adds. Mr. Unruh told the analysts he was "disappointed" with 1995 results but promised a "faster, more profitable transformation of Unisys, returning us to profitability in 1996 and setting a foundation for the future."

Johnson Controls Inc., in contrast, is scoring big with its expansion into related fields. The Milwaukee manufacturer of building heating and security controls has entered the building-maintenance business. It also is cashing in on the automobile industry's outsourcing trend. Now the leading supplier of car seats, Johnson Controls is moving to produce the full range of car interiors, including control panels, ceilings and door panels.

"We tried to limit our growth strategy to complementary things as opposed to getting into new businesses," says William Killian, Johnson Controls's head of development and strategy. For the fiscal year ended Sept. 30, the company's sales surged 21% to $8.33 billion, and its net income 19% to $196 million. The fast pace is continuing this fiscal year.

That's a feat for a big company, especially one outside high tech. Many companies can get revenue growth but spend too much getting it. "We are entering a new era of superficiality where growth alone takes precedence over return on equity," says Joel Friedman of Andersen Consulting.

Risks of Going Global

The problems of pushing growth aren't confined to industry giants. One risky maneuver, going global, has been embraced by companies large and small as a way to offset slow domestic growth in mature industries.

Domestic sales at $60-million-a-year Abar Ipsen Industries had peaked because traditional customers for its metal-strengthening furnaces were building fewer factories. And competition was growing; instead of buying Abar Ipsen furnaces, manufacturers were outsourcing the work to heat-treatment companies. So, Abar Ipsen hunted for growth in China and other developing Pacific Rim nations. It thought it knew what it was getting into; it had sold furnaces in Japan for years.

However, the new tack is "twice as hard as expected," Executive Vice President Mario Ciampini says. As draftsmen outside his Bensalem, Pa., office design furnaces, Mr. Ciampini lists the problems arising in the past year: Thieves stole parts from Abar Ipsen crates on the docks of Singapore. Electricity and water systems were lacking when the company's technicians arrived at a customer's plant in a remote province of China. At another Chinese site, the crate containing a furnace was soaked with rainwater, and, under the contract, Abar Ipsen had to pay for the $50,000 repair. Moreover, Abar Ipsen pushed overseas without any technicians willing to live there for extended periods, and it has run up big bills ferrying technicians back and forth.

So far, Abar Ipsen hasn't made money on its $10 million in additional annual sales in Asia. Mr. Ciampini won't say what the cost has been but comments "It's a hell of a price you have to pay for growth in these underdeveloped countries."

But Abar Ipsen is staying the course. It is building a plant in Shanghai and turning to local technicians for help. "We had to decide if we are an interim or a long-term player," Mr. Ciampini says.

Difficult Transition

Whatever their tactics, few companies achieve double-digit growth if they have been running at half that pace, according to Deloitte & Touche. All the more reason not to rush growth or bet too heavily on one approach, says Thomas Dorley, who heads the accounting firm's Braxton Associates consulting unit. "It takes an organization at least 18 months" to get ready to grow faster, he adds. The difficulty in taking the time to do it right, he concedes, is that Wall Street likes quick results.

That problem is vexing Emerson Electric Co. Charles Knight, chairman of the St. Louis capital-goods giant, told shareholders 2 1/2 years ago that a decade of restructuring had put it in a position to grow "at rates above the economy- driven expectations." Wall Street took that to indicate that Emerson, whose products include compressors for air conditioners, heat regulators for machinery and dishwasher motors, wanted to become known for consistently faster sales growth.

A growth company, then? Well, yes. Wall Street had long regarded Emerson as one of the nation's best-run cyclical companies, able to beat the economy's growth rate despite being tied closely to its ups and downs. Now Emerson wants even more respect, and it has been investing heavily in new-product research, joint ventures and plant expansion overseas. It also has kept up a steady pace of acquisitions, long its main engine for revenue growth.

Last year, a combination of internal growth and acquisitions lifted its sales 16% to $10.1 billion and its earnings 15% to $907.7 million, or $4.06 a share. This year, the company says it is "comfortable" with Wall Street forecasts of $11 billion in sales and earnings in excess of $1 billion.

Is that a sign the growth strategy is working? Emerson's management says it is and sees even better days ahead. But some analysts say its recent performance, while excellent, is typical of its record at the top of economic cycles. In effect, they want more. Emerson's stock, which used to consistently beat the Standard & Poor's 500 index, fell a bit behind the market's big gains last year and so far this year.

An Emerson executive vice president, Robert Novello, notes its 38 consecutive years of earnings gains and says the skeptics will be proved wrong. "Tell us where Emerson has ever gone on a major program and not achieved it," he says.

Understanding Strategic Intent in the Global Marketplace

Michael A. Hitt, Beverly B. Tyler, Camilla Hardee, and Daewoo Park

Executive Overview

In this article we underscore how important it is for corporate players in the world's competitive arena to understand the strategic orientation and intent of competitors, partners, and one's own often nationally diverse management team. We offer several examples to illustrate what it takes to succeed in this arena, and include some advice for companies interested in revising their perceptual maps. Such revisions have become imperative as competition in global industries intensifies, as more companies learn to manage across borders, and as the economics of nation states becomes interlinked.

"When you understand your competitors and yourself, you will always win."

Sun Tzu
The Art of War

Although Sun Tzu was referring to enemies in battle, the ancient military strategist could have just as easily been analyzing Japan's success in U.S. markets. Indeed, Japan's global competitiveness has been attributed to its visceral understanding of customers, suppliers, partners, regulators, influence peddlers, and competitors.(1) A case in point is Komatsu Limited, now the world's second-largest earth moving equipment company. In the 1950s, protected from outside competition by the Japanese Ministry of International Trade and investment (MITI), there was little incentive for Komatsu to augment its product line or to improve product quality. In the early 1960s, however, the MITI believed that Japan did not have a competitive advantage in the earth moving equipment industry and opened it to foreign capital investments to protect the emerging Japanese auto and electronics industries. When Caterpillar Tractor Co., the world's largest earth moving equipment company, proposed a Mitsubishi-Caterpillar joint venture, Komatsu's president, Yashinari Kawai, pressured the MITI to delay the project two years. The company's survival depended on his ability to quickly take advantage of the Japanese government's policies requiring that foreign companies help Japanese companies in return for access to Japan's markets. Thus, Komatsu entered into licensing arrangements with three U.S. companies: International Harvester, Bucyrus-Erie, and Cummins Engine.

Kawai understood Komatsu's customers and employees as well. He realized that Japanese companies would prefer quality products, and Komatsu's current products did not meet international standards. He knew as well that, as third world countries began to industrialize, price would become more important in the marketplace, a plus for his firm because Japanese employees were willing to work for lower wages than U.S. employees. He also knew how to use the turbulence and crisis within the company to encourage employee participation and commitment, focused on the desire to "Maru C" (surround Caterpillar).

Komatsu understood the motives and intentions of its government, customers, competitors, partners and employees. The Japanese government wanted industries that would compete in world markets, customers wanted quality products and services at a reasonable price, employees desired job security, participative leadership, and a sense of achievement, and competitors and partners wanted success to the Japanese markets. By understanding the orientations of each of these players, Komatsu was able to position itself so that it could become a world-class player.(2)

Understanding Competitors

Relying too heavily on a static analysis of one's competitors generally does not provide insight into their direction or speed(3) and provides little basis for understanding a competitor's strategic intent or basic orientation for developing competitive positions.(4)

Komatsu decided to compete with Caterpillar on its home soil in Japan, and in the U.S. Komatsu carefully studied and understood Caterpillar's strategic orientation and intent.(5) Its move into the U.S. market was deliberate, with careful attention paid to its competitors and customers. Understanding Caterpillar's competitive strengths, including its dealer network, quality products, and product support, Komatsu began to imitate Caterpillar by building its dealer network and studying customer concerns. Komatsu built a plant in Chattanooga, Tennessee, to begin manufacturing some of the large equipment sold in the U.S. because of the strong sense of protectionism in the U.S. and pressure to buy U.S. made goods. Concurrently, changes in the value of the dollar and the yen made it more cost effective to build in the U.S. instead of shipping products from Japan.

Samsung, a South Korean firm, has also shown an uncanny ability to understand the strategic intent and orientation of its competitors. It became the leading manufacturer of memory chips by matching its Japanese competitors on quality and delivery and besting them on price. Samsung executives suggest that they have learned from their competitors' successes and shortcomings. For example, they avoided the short-sightedness of U.S. manufacturers who significantly reduced their capital expenditures for production equipment during cyclical downturns and had inadequate capacity when the demand for chips increased.(6)

These two examples illustrate the importance of understanding competitors. In this era of rapid globalization, no company can afford to limit its competitor analysis to the past or current experiences. Rather, companies must seek information regarding competitor's government support (e.g., tariffs, subsidies), potential options for action and reaction (e.g., plant locations, technological capabilities, tacit skills) and probable partnerships (e.g., licensing agreements, joint ventures, technological alliances). In short, they must develop adequate information to predict competitors' strategic orientation and intent.

Understanding Partners

Cooperative strategies are becoming common in domestic and international markets. For example, large and small corporations have joined with startups to develop leading-edge technology, and U.S. companies have aligned with foreign concerns to penetrate international markets. General Electric Co. boasts of over 100 such partnerships, IBM has joined in over 400 strategic alliances, and AT&T has had partners in the Netherlands, Italy, Spain, South Korea, Taiwan, and Japan since 1980. Fortune reports that "alliances are so central to Corning's strategy that the corporation now defines itself as a 'network of organizations'."(7) However, several of these partnerships have not been successful. Executives sometimes conclude deals without adequate consideration of the potential consequences and find that their partner's management style, motivations, or commitment conflict with their own. Two of the primary reasons these relationships go astray are: failure to agree in advance on how to run the business, and inflexible contractual agreements that cannot be changed as the business evolves. Other problems arise from the tendency of partners to think their own technology is best, lack of trust between the partners, and the desire to control rather than collaborate.(8)

Painful Lessons

Careful planning, negotiation, and contracting are necessary to avoid such problems in cooperative partnerships. Many U.S. companies still remember the painful lessons learned in the 1970s and 1980s, when they were deceived by partners who obtained technology and market knowledge only to use it to compete against them. Even contracted sales restrictions can be annulled through government intervention. A case in point was Komatsu's decision in the early 1980s to become a full-line supplier of earth moving equipment. This required a reevaluation of its licensing relationships with technology suppliers Bucyrus-Erie and International Harvester. Komatsu appealed to Japan's fair trade commission to support objections to contractual terms restricting the export of two new products using Bucyrus-Erie technology. The commission agreed that the terms constituted a restrictive business practice that impaired competition and allowed Komatsu to buy its way out of the contract. Soon thereafter, it also bought out its obligations to International Harvester. A Komatsu senior manager said "Komatsu had digested its licensed technology and had established its own technology. Therefore, we just got out of the various licensing agreements."(9)

While Komatsu has been successful in dealing with its competitors and some partners, some of its partnership arrangements have soured. For example, in its desire to "Maru C" it developed a joint venture with U.S.-based Dresser Industries. The intent was to form a joint venture with equal ownership, based on the principles of shared and equal management. Products were to be supplied by Komatsu and Dresser plants in North and South America. The deal was expected to help Komatsu gain a greater foothold in the North and South American markets. Dresser was mired in a downturn in its industry and had excess production capacity. While Komatsu wanted to increase its production in the U.S., Dresser needed to upgrade its plant and equipment. Komatsu injected $200 million and provided production engineers to help in modernizing seven Dresser production facilities. Originally, Komatsu was supposed to shift 60 percent of its production for the U.S. market to the joint venture plants. The two firms were supposed to merge their manufacturing, engineering and finance operations. The Komatsu and Dresser product lines were intended to remain distinct and sold through their separate dealership networks. They ended up competing, however, and numerous clashes erupted between the approaches used by Japanese and American executives in the joint venture. Dresser executives felt excluded from Komatsu decision making. One manager suggested that top Japanese executives often made crucial decisions during Friday evening sessions (held in Japanese) and he learned about the decisions from Japanese subordinates on Monday morning. Some executives charged that Komatsu made the joint venture pay up to 15 percent above market value for its goods. But, Dresser executives refused to provide product information to their Komatsu counterparts because they were afraid of losing sales. As a result of the problems, Dresser hired an industrial consultant to teach its employees how to deal with the Japanese. Furthermore, it sent employees to Japan to learn more about the Japanese culture and work habits. To date, this joint venture has lost market share, but may still pay dividends.(lO)

Communication Gaps
Often, alliances become troubled because the partners do not clearly understand each other's intent--their strategy, goals and purposes--because they are unable to communicate clearly with managers from a different culture. Such communication gaps often lead to an atmosphere of frustration and mistrust. This problem is exemplified by the partnership of GM and Daewoo, a Korean firm. In 1984, GM and Daewoo signed an agreement to invest $199 million each in a factory to produce the Pontiac LeMans subcompact car. The automobile would utilize GM's German-based technology responsible for the Opel Kadett. The Daewoo Group didn't have the engineering expertise to design or manufacture a LeMans-class car, and GM's U.S. manufacturing operations couldn't produce the LeMans profitably in the numbers needed. Therefore, this partnership looked like a match made in heaven. Not only did GM's European affiliate, Opel, provide the car design, but Opel engineers also set up Daewoo's assembly line plant to manufacture the Pontiac LeMans.

The venture went beyond joint manufacturing of the LeMans in Korea. The two firms also opened three auto parts ventures to make steering gears, axles, brakes, radiators, and air conditioning components. Also, GM took responsibility for the North American marketing of the Daewoo manufactured Pontiac LeMans automobile. Daewoo was hoping to take advantage of GM's engineering, financing and marketing strengths to gain market share from one of its chief Korean competitors, Hyundai.

Unfortunately, multiple problems began to develop. Sales of the LeMans fell dramatically short of projected targets. While Daewoo blamed GM for failing to promote the car, GM blamed Daewoo for quality and supply problems. The GM management expert sent to Korea to correct the problems stated that the Koreans had neither the manufacturing heritage nor an adequate understanding of the auto industry. While Daewoo had the capacity to produce up to 278,000 cars per year, annual combined sales in the U.S. and Korean markets reached only 100,000. Daewoo felt that the LeMans was not a priority product for GM. Furthermore, Daewoo wanted to invest aggressively to take advantage of Korea's booming domestic auto market which was growing at an average of 60 percent per year. However, GM was not interested in additional investments to take advantage of this market. As a result, Daewoo sought help from other firms, including Japan's Suzuki Motor Company, to develop an automobile that would sell well in the Korean market.

Sales of the LeMans continued to decline to slightly over 39,000 autos in the U.S. in 1990. There were numerous management clashes and operational disputes between the two firms. Daewoo wanted to make decisions and move quickly, and GM's methodical approach prolonged decision making and created conflict. Neither party fully understood the other's strategic goals nor its strengths and weaknesses. Thus, what was now an obvious mismatch in strategic orientation and intent had not even been considered as a possibility by either party prior to forming the venture.(11) As a consequence, GM and Daewoo went through a bitter divorce. Each company acknowledged that both underestimated obstacles faced by their venture, including different cultures, languages and business aspirations. One executive noted that the two partners never learned to walk together before trying to run together. These partners did not understand one another before or during the venture and therefore, the venture failed.(12)

Even though many cooperative partnerships have proven unsuccessful, the number of such partnerships, including equity ownership, licensing, agreements, joint ventures, strategic alliances, and other types of contractual agreements, has increased exponentially over the past decade. As industries globalize, industry players, large and small, are creating strategic alliances in order to survive the competitive shakeout. The desire for lower sourcing costs served as one of the earliest motivations for cooperative relationships. A number of U.S. firms moved manufacturing facilities to foreign locations, often in Asia or Latin America, in an effort to save on labor costs. In so doing, several have formed joint ventures, such as General Motors and Daewoo, or have purchased equity positions, such as Ford's 25 percent position in Mazda, 10 percent position in Kia Motors of Korea and 75 percent position in Aston Martin Lagonda.(13) However, this strategy must be implemented carefully. The negative experiences of companies such as General Motors with Daewoo serve as reminders of the obstacles to success.(14)

Understanding a Nationally Diverse Management Team

Michael Porter argues that "Firms can no longer view the domestic and foreign spheres as separate and different but must see the whole--how to conceive and implement overall strategies for competing globally."(15) It has become increasingly evident that the old ways of competing internationally have become obsolete. Currently, firms are confronted with a bewildering array of competitive and management problems in implementing their own intrafirm agreements.(16) Kenichi Ohmae describes the borderless world with an interlinked economy, toward which he believes we are moving. He believes that on a competitive map--as compared to a political map--showing the actual flows of financial and industrial activity, boundaries between countries have largely disappeared. In this world, global citizenship is no longer only a phrase but a reality.(17)

Perhaps equally as critical as understanding one's competitors and partners is a firm's understanding of the strategic orientations of its nationally diverse management team. Many multinational firms are evolving into almost stateless corporations, whereby executives come from multiple countries with diverse cultures, and decisions are made without regard to national boundaries. In these firms, differences in managers' strategic orientations should be understood, appreciated and utilized to the advantage of the firm.(18)

It is imperative that firms with international operations understand their own managers' strategic orientations and intent. If a firm has operations in Korea, for example, it is important to understand the potential strategic actions that might be undertaken by top managers of that unit. This is particularly important in multinational companies because of the need to provide autonomy to these national units to that they can be responsive to the local markets and compete effectively. It is also critical to coordinate among the separate units in order to build cost advantages through centralized global operations. Coordination requires effective communication and integration that can only be achieved if management understands how various managers think, what they value and how they are likely to respond. To illustrate this point, when we explained how top U.S. and Korean executives evaluate an acquisition decision,(19) we found significant variation in the decision criteria.

As shown in Table 1, U.S. executives considered projected demand for the target firm's product to be the most important criterion, followed by cash flow, return on investment, attractiveness of the industry in which the firm operated, management talent, and the expected synergy between the two firms. On the other hand, the Korean executives regarded attractiveness of the target firm's, industry as the most important criterion, followed by the target firm's sales revenue, market share, and capabilities in manufacturing and research and development. Among the top criteria for each group of executives, only industry attractiveness was common to both.

While decisions of executives from both the U.S. and Korea were determined primarily by the objective criteria on which each target firm was evaluated, U.S. executives' decisions varied more by individual than those of their Korean counterparts. The Koreans' strategic decision criteria reflected the more homogenizing influences present in the Korean culture. The Korean cultural heritage fosters a form of management Chandler called "group capitalism."(20)

In addition, while U.S. executives placed heavy weight on financial criteria, the Koreans focused more on current market position and capabilities. By and large, U.S. executives focus on financial criteria, such as cash flow and return on investment (ROI), because of emphasis on maximizing shareholder wealth. On the other hand, Korean executives pursue ROI for the purpose of market expansion and growth. U.S. firms are financed largely through the capital market, whereas Korean firms are often financed through government-guided bank loans. U.S. executives often feel pressure to meet stockholder demands for high dividends, and thus may focus more on profitability than potential growth opportunities. In contrast, Korean executives are less sensitive to short term profitability and more sensitive to long-term growth strategies.(21)

Table 1

Top Five Criteria Used in Strategic Acquistion Decisions

U.S. Executives	Korean Executives
1. Projected Demand for Target Firm's Product(s)	1. Attractiveness of Target Firm's Industry(ies)
2. Discounted Cash Flow	2. Sales Revenue
3. Return on Investment	3. Market Share
4. Attractiveness of Target Firm's Industry(ies)	4. Manufacturing Capabilities
5. Management Talent/Expected Synergy	5. R&D Capabilities

Revising Perceptual Maps

Firms moving into global markets will have to revise their perceptual maps of competitors and markets. Undoubtedly, movement from a domestic to a global market opens a new arena for competition. Furthermore, the markets and network of competitors are clearly more complex. Thus, while it becomes even more important to understand the strategic orientation and intent of your competitors, partners and nationally diverse management team, it also becomes more difficult to do so.(22)

While there are several ways that firms might attempt to examine their competitors, potential partners and their own managers, we recommend the following actions:

To Understand Your Competitors

- Go beyond standard static analyses of competitors.
- Examine their national history (e.g., dominant religion, government-business relationships, level of economic development, etc.).

• Analyze their managerial values, goals and strategy.
• Profile their strategic orientations and predict their strategic intent.

To Understand Your Potential Partners

• Analyze their corporate culture, structure and operating systems to combine with information on top executives' strategic orientation.
• Analyze how the specific alliance fits into the partner's overall strategy.
• Analyze partner's costs and benefits from the alliance, both tangible and intangible.
• Predict partner's strategic intent for the alliance.

To Understand Diverse Members of Your Management Team

• Examine the culture of their country of origin and its other relevant characteristics.
• Analyze the types and amount of experience they have achieved.
• Analyze their previous major strategic decisions.
• Use this information to profile their strategic orientation.

Endnotes

1 F.S. Worthy, "Keys to Japanese Success in Asia." Fortune, October 7, 1991, 157-169.
2 C.A. Bartlett and U.S. Rangan, Komatsu Limited, Harvard Business School, case #9-385-277, 1985: Bartlett, Komatsu Limited, Harvard Business School, teaching note #5-388-130, 1988; U.S. Rangan and C.A. Bartlett, Caterpillar Tractor Co., Harvard Business School, case #9-385-276, 1985.
3 G. Hamel and C.K. Prahalad, "Strategic Intent," Harvard Business Review, May-June 1989, 63-76.
4 Hamel and Prahalad, op. cit.; D. Park and M.A. Hitt, "Executive Effectson Strategic Decision Models: Examination of Strategic Intent," paper presented at the Strategic Management Society, Toronto, Canada, October,
5 B. Kelly, 'Komatsu in a Catfight," Sales and Market Management, April 1986, 50-53.
6 L. Nakarmi and N. Gross, "Masters of the Clean Room: How Samsung Upstaged Japan to Become Number One in ORAMS,", Business Week, September 27, 1993, 107-108.
7 J.B. Levine and A. Byrne, "Corporate Odd Couples," Business Week, July 21, 1986, 100-104; S. Sherman, "Are Strategic Alliances Working?" Fortune, September 21, 1992, 76-78.
8 Bartlett and Rangan, Komatsu Limited, op.cit.; Levine and Byrne, op.cit.; Sherman, op.cit.
9 Bartlett and Rangan, Komatsu Limited, op.cit.
10 J. Mullich, "Heavy Equipment Venture Packs Powerful Punch," Business Marketing, March 1993, 10; K. Kelly, "A Dream Marriage Turns Nightmarish," Business Week, April 29, 1991, 94-95; W.G. Krizan and N. Usui, "Dresser, Komatsu Strike Deal," ENR, February 11, 1988, 7; "Dresser, Komatsu Form North America Joint Venture," Engineering and Mining Journal, October 1988, 53.
11 L. Nakarmi, L. Armstrong and J.B. Treece, "Is the GM-Daewoo Deal Running on Empty?" Business Week, September 12, 1988, 55; J.B. Treece, "Why GM and Daewoo Wound Up on the Road to Nowhere," Business Week, September 23, 1991, 55; P.A. Eisenstein, "Inchon Landing," Chilton's Automotive Industries, February 1990, 116-118.
12 D. Darlin and J.B. White, "Failed Marriage: GM Venture in Korea Nears End, Betraying Firm's Fond Hopes," Wall Street Journal, January 16, 1992, A-1, A-12.
13 Park and Hitt, op.cit.; K. Kell, O. Port, J. Treece, G. DeGeorge, and Z. Schiller, "Learning from Japan," Business Week, January 27, 1992, 52-60.
14 Strategic alliances can be successful. For example, Corning obtained more than half of its $133.3 million in net income in 1985 from nearly two dozen alliances. Corning executives argue that the company's success with corporate linkups comes from working with a long-term perspective. They seek lifetime associations because of the enormous energy it takes to make a