Conducting and integrating strategy research at the international, corporate, and business levels
Dess, G.; Gupta, A.; Hennart, Jean-Francois; Hill, C.

Published in:
Journal of management

Publication date:
1995

Link to publication

Citation for published version (APA):

General rights
Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal

Take down policy
If you believe that this document breaches copyright, please contact us providing details, and we will remove access to the work immediately and investigate your claim.

Download date: 29. Dec. 2018
Conducting and Integrating Strategy Research at the International, Corporate, and Business Levels: Issues and Directions

Gregory G. Dess
*University of Texas at Arlington*

Anil Gupta
*University of Maryland*

Jean-Francois Hennart
*University of Illinois*

Charles W.L. Hill
*University of Washington*

This paper identifies important research issues at the international, corporate, and business levels of strategy research. In addition, research questions that require integration across multiple levels of strategy as well as the incorporation of both the content and process dimensions of strategy are addressed.

The last twenty years have witnessed an impressive output of both theoretical development and empirical research in the strategy area. This diverse and emerging literature has addressed topics at the international, corporate, and business levels and has spanned across both strategy content and strategy process. The objective of this paper is twofold: (1) identify areas for future theoretical development and empirical inquiry at the international, corporate, and business levels, and (2) suggest possibilities for integration across levels of strategy.

The first three sections of this paper focus on promising research avenues at the international, corporate, and business levels of strategy, respectively. The fourth section suggests possibilities for integration across levels of strategy. Given space constraints, we do not, of course, claim to be comprehensive in suggesting areas of promising research opportunities. One of our objectives is to stimulate debate regarding the viability of research directions proposed and encourage dialogue among the community of strategic management scholars on other important areas that were not addressed.

The first section, "Promising Directions and Dead-Ends in International Strategy Research," raises some basic issues about motivations behind...
internationalization and the relationship between internationalization and economic performance. The theory that firms are diversifying their risk by setting up operations in a portfolio of countries (Geringer, Beamish & da Costa, 1989; Kim, Hwang & Burgers, 1989) is rejected. Instead, it is argued that multinationalization can be best explained as a means to internalize inefficient markets for intermediate inputs. Intermediate inputs are defined broadly to include intangibles which are characterized by high fixed costs and low marginal costs. Another suggested fruitful area for future research is the identification of patterns and causes for failure of foreign entry. Studying failures may provide us with a more complete understanding than the study of successful entries alone may provide.

In the next section, “Key Research Issues—Corporate-Level Strategy,” four major reasons which contributed to the inability of corporate-level strategy research to fulfill its initial promise are identified. First, most of the research in the corporate-level strategy area has attempted to examine the relationship between strategy and performance without considering the role played by corporate strategy in creating and sustaining competitive advantage at the business level. Second, it is argued that the widespread adoption of Rumelt’s (1974) categories of diversification has been inappropriate since it fails to distinguish among differences of economic gains. Third, corporate-level strategy research has been almost exclusively content-oriented and has paid inadequate attention to the role of implementation. Finally, corporate-level research has failed to establish clear cause-effect relationships because of its use of an inappropriate methodological orientation, for example, cross-sectional studies.

Business-level strategy is addressed in the third section, “Research in Business-Level Strategy: Substantive and Methodological Considerations.” It is at the business level that competition among rival firms takes place. At the heart of business-level strategy is the concept of competitive advantage which can take multiple forms. Traditionally, cost leadership, differentiation, and focus have been recognized as the three primary forms (Porter, 1980) but, in recent years, quick response has been increasingly recognized as a separate and distinct alternate means to attain a competitive advantage. Three basic questions regarding the nature of competitive advantage are discussed: (1) What are the important subdimensions of each form of competitive advantage? (2) How can businesses effectively attain multiple competitive advantages? and (3) What insights does the resource-based model provide on how competitive advantages may be sustainable?

Although investigating research questions about the corporate, business, and international levels of strategy is important, research in strategic management cannot and should not be confined to any one level, given their interdependent and interconnected nature. This final section, “Integrative Research Across Levels In Strategy,” raises several thought provoking research questions that require the integration of multiple levels of strategy. Some of the important content issues identified include the decomposition of the impact of corporate-level strategy on an individual SBU’s competitive position as well as the interactive impact of a firm’s international expansion and its
Promising Directions and Dead-Ends in International Strategy Research

Recently, a number of articles have appeared in strategy journals investigating the relationship between so called "geographical diversification" and performance (Geringer, Beamish & da Costa, 1989; Kim, Hwang & Burgers, 1989, 1993). This work, which we will call the 'geographic diversification' approach, is patterned on the extensive domestic strategy literature and sees the geographical extension of firms abroad as the international equivalent of domestic product diversification. It is argued that this work suffers from some of the shortcomings of the domestic diversification literature, namely a focus on outcomes rather than on motives for international expansion. Critically examining this literature in the light of existing theories of international business underlies its lack of clear theoretical underpinnings and suggests other more promising research opportunities.

Product and Geographic Diversification

One of the most prolific research areas in domestic strategy has been the relationship between diversification and performance. It is tempting to extend this concept to the international area, and to consider the expansion of multinational firms into foreign countries as the geographical counterpart to product diversification. Hence, the expectation is that the larger the number of foreign countries in which the firm is present (the greater its geographical diversification), the better its relative profit performance. A number of researchers (Wolf, 1977; Rugman, 1979; Geringer, Beamish & da Costa 1989; Kim et al., 1989, 1993) have pursued this approach. Some of their findings have been mixed, and somewhat puzzling. Kim et al. (1989), for example, found that geographical diversification increased the profit stability of related diversifiers, but not that of unrelated diversifiers. Yet, if profit stability comes from engaging into unrelated activities, firms which are diversified along both the product and geographical dimensions (i.e., unrelated product diversifiers which are highly geographically diversified) should have more stable profits than firms which are diversified on the product dimension alone.

One major problem with the stream of strategy research on diversification is that it has focused more on outcomes than on motives. Yet there may be many different reasons why a firm ends up being diversified. The next section urges a redirection of domestic product diversification research towards an exploration of these motives. By contrast, the various theories of foreign direct investment and of the multinational enterprise have, from very early on, focused on the motives for the various forms of international expansion (Hennart, 1982). Consequently, the 'geographical diversification' approach, which patterns itself
on domestic diversification studies, constitutes in many ways a step backward in our understanding of the international expansion of firms. Yet at the same time this literature raises a number of important issues that deserve further study.

**Geographical Diversification as Portfolio Diversification**

Most 'geographical diversification' authors who have investigated the empirical relationship between profitability, profit stability, and profit growth, have explained it in terms of the theory of portfolio diversification (Kim et al., 1989). Simply put, that theory says that owning assets whose returns are uncorrelated will reduce your risk at any level of return (Markowitz, 1959). To the extent that basic economic conditions tend to be uncorrelated across countries, then a firm with operations in many countries is likely to have more stable returns than a firm operating in a single country.

Markowitz (1959) had in mind an individual diversifying his/her assets, and at the outset one must show why it makes sense for firms to do this diversification rather than individuals. Why should firms diversify across countries while individuals can build a diversified portfolio of 'pure plays', i.e. single business, single country firms? An assumption of the risk reduction model for international diversification must therefore be that individuals are more limited in their ability to diversify than firms. Then the second best solution is for individual investors to buy shares in firms which diversify for them.

What should such firms look like? To maximize diversification, they should have the following characteristics: (1) they should own small shares in a very large number of foreign projects, since this maximizes diversification for a given level of investment; (2) they should be highly diversified across industries; (3) they should have investments in countries whose business cycle is uncorrelated with that of their home base.

How does the actual pattern of multinational firms compare to what would be predicted by portfolio diversification? First, most foreign investments of multinational firms are 100 percent owned. Only 18 percent of the 8,621 foreign subsidiaries of US firms in 1975 were minority owned, whereas 57 percent were wholly-owned (Vernon, 1977, p. 34). Likewise, 73 percent of all Japanese subsidiaries in the United States were wholly-owned.

Second, most foreign investments are in the same main industry as that of the parent. In 1966, 83 percent of the sales of the foreign affiliates of US firms were in the same BEA classification—roughly equivalent to 3 digit SIC—as their parents (Hennart, 1982, p. 15). Similarly, 80 percent of the U.S. affiliates of a sample of Japanese firms were producing the same 4-digit SIC product as their parents (Hennart & Park, 1993). Hence there is very little international product diversification.

Third, a firm that minimizes risk would invest in countries whose business cycles are uncorrelated with that of its home country. Such an optimal country portfolio was calculated for a U.S. investor by Levy and Sarnat (1970) for the 1951-67 period: the geographical pattern of U.S. investments abroad in 1966 bears very little resemblance to it, with a significant proportion of the U.S. stake...
in Canada, a country whose business cycle is highly correlated with that of the U.S. (Hennart, 1982).

Given these characteristics of multinational firms, we would expect them to be rather poor vehicles for diversification. And in fact this is the case. Jacquillat and Solnik (1978) compared the reduction in risk achieved by buying a portfolio of securities compared to that obtained by buying stock in American-based MNEs. Compared to buying a portfolio of domestic U.S. shares, buying shares of U.S. MNEs reduced risk 10 percent, whereas buying an internationally diversified portfolio on the stock market reduced risk 50 to 70 percent.

The conclusion of this exercise is that it does not appear that international diversification is the prime reason for the existence of multinational firms. At best, international diversification might be a by-product of some more basic reason that leads firms to expand internationally.

The Transaction Costs Theory of ‘Geographical Diversification’

Transaction costs theory offers an alternative theory of why firms expand abroad (see Hennart, 1991 for a survey). Transaction costs theory argues that multinational firms do not expand abroad to reduce risk, but instead to internalize markets for intermediate inputs. These intermediate inputs are both tangible (raw materials and components) and intangible (knowledge and reputation).

A firm which generates intangibles (new products or processes, managerial know-how, and reputation), reaps considerable gains from exploiting them in as many countries as possible, either directly through licensing or franchising, or indirectly by incorporating them in products or services produced in foreign markets. MNEs manufacture abroad when there is demand for these intangibles abroad, and when the market for these intangibles is so imperfect as to make vertical integration into the manufacture of products and services that incorporate them the preferred solution. Hence expanding abroad brings higher returns on intangibles.

The implications of this theory are consistent with the empirical evidence. First, the theory explains the disproportionate concentration of a country’s foreign investments in countries whose business cycles are highly correlated with those of the home country (for example, Canada for the United States, or Norway for Sweden). International expansion is the replacement of market by intra-firm coordination. The pattern of firm expansion abroad is therefore affected by management costs: the more culturally close the target country, the lower the costs of managing the affiliate. Since countries that are culturally close are usually also economically integrated, a substantial proportion of any country’s foreign investments is in countries which would be unlikely target markets if what was sought was diversification.

Also, a firm’s stock of intangibles is usually industry specific, and this explains why most multinationals will expand into the overseas manufacture of products they manufacture at home (most exceptions being cases of vertical integration, i.e., the internalization of international markets for raw materials and components and parts).
Third, internalization theory tells us that the reason for a firm’s expansion abroad is to replace markets by hierarchical coordination. Since hierarchical coordination usually requires equity control, this explains why most foreign subsidiaries are majority- or wholly-owned by their parents. In short, internalization theory presents a clear theory of why firms invest abroad, and this theory is matched by the empirical evidence.

Internalization theory predicts that a firm’s degree of ‘geographical diversification’, or more precisely of international expansion, should be associated with its endowment of intangibles, but that geographical diversification should be of no (or even negative) value in the absence of intangibles. The reason for the expectation of negative value is that operation abroad is always more costly than operation at home, and can only be justified if the firm can exploit the intangibles it has accumulated at home.¹

Morck and Yeung (1991) performed an interesting test of this proposition. They regressed a firm’s q value (the market value of a firm divided by the replacement cost of its tangible assets) by its degree of multinationality (analogous to ‘geographical diversification’) and the cross-product of its multinationality with its research and development and advertising intensities, two main sources of intangibles exploitable abroad. The results show that while the cross product terms are positive and significant, the multinationality term per se is insignificant. In other words, a firm’s geographical diversification does not provide any significant value unless the firm possesses R&D or advertising-related intangible assets. Multinational firms do not expand abroad principally to reduce risk, but to exploit intangible assets. There are no benefits to ‘geographical diversification’ per se. Absent the need to internalize imperfect markets for intermediate inputs, there are no benefits of extending hierarchical control across borders, since operating abroad is always more costly than staying at home.

Are There Benefits to ‘Geographical Diversification’ per se?

These predictions seem contradicted by a recent piece by Kim et al. (1993) in which the authors argue that geographically diversified firms are likely to experience higher returns at lower risks than single-market firms because they have three basic advantages over single country firms. That is, geographical diversification provides multiple market bases from which to retaliate against competitors, it gives the added option of moving production in response to changes in economic conditions, and it makes it possible to diversify risk as per the traditional portfolio diversification model described above.

After controlling for industry effects, Kim et al. (1993) find that firms which show the highest degree of geographical diversification enjoy higher profits at lower risk than their less geographically diversified rivals. The authors conclude that the distinct opportunities and options that geographically diversified firms have over domestic firms are the cause of this higher return/risk tradeoff.

These findings suggest that there are benefits to geographical diversification per se. But they also can be interpreted in a different way. Recall that transaction cost theory posits that firms are geographically diversified because they have
expanded abroad to internalize imperfect markets for intermediate inputs, including those for intangibles. We would therefore expect a firm's extent of geographical diversification (i.e., multinationality) to vary with its stock of intangibles. Indeed, research and development and advertising intensity have been shown to be the major determinants of a firm's geographical diversification (Swedenborg, 1979; Hennart & Park, 1994). Kim et al.'s, measure of performance is return on assets (ROA). Since accounting rules systematically underreport intangible assets, we would expect firms with a large share of these assets in total assets to show high (apparent) ROAs. Hence it is possible that the relationship uncovered by Kim et al. between geographical diversification and performance is spurious. It is quite possible that Kim et al.'s findings do not show that geographical diversification per se leads to greater profitability, only that accounting rules tend to overestimate the profitability of firms which are intangible-assets intensive. Those firms, as predicted by transaction cost theory, are also the most geographically diversified.

Even if Kim et al.'s test is flawed, the issue of whether there are benefits of geographical diversification per se is an important one. As we have seen, transaction cost theory argues that geographical diversification is the result of the internalization of the market for intangibles (and other intermediate inputs). As long as firms need to internalize markets for these inputs across national boundaries, they will remain geographically diversified. One does not need to assume that there are advantages that accrue to geographical diversification per se.

In contrast, Kim et al. ascribe three major advantages to geographical diversification: the ability to retaliate from multiple bases; greater operational flexibility; and the reduction of risk through the portfolio diversification effect. While the latter advantage has been discussed at length here, and its centrality to geographical diversification has been shown to be in doubt, more theoretical and empirical research should be devoted to the first two advantages. Kogut (1985), for example, argues that being present in multiple markets allows multinational firms greater options to shift production and markets between countries. For this argument to carry, one must show that multinational firms, with their network of international hierarchical relationships, are more flexible than an equivalent network of arm's length agreements.

We do not have the space to discuss this at length here, but one can think of reasons why arm's length relationships would be more flexible. One of them, pointed out by Williamson (1985, pp. 150-151), is the greater tendency in firms to forgive errors and failings and the greater politicization of internal trades (Williamson, 1985, pp. 152-153). The contrary argument is that the multinational's network of affiliates provides managers at headquarters with a broader perspective (Root, 1973) while the greater alignment of incentives within the firm may facilitate information transfer (Hennart, 1982) (assuming that the firm's subsidiaries are not run as separate profit centers). Before looking at the macro impact of geographical diversification on performance, a more fruitful line of inquiry would therefore be to investigate the extent to which these hypothesized relationships hold at the firm level. It is worth noting that...
the only piece of evidence on this subject is that of Rangan (1994). Rangan investigated whether U.S. intrafirm trade responded as fully to the depreciation of the U.S. dollar in the late 1980s as arm's length trade. He found no substantial difference between the speed of response of these two classes of exports, supporting the view that multinational firms are not more flexible than markets in adjusting to exogenous shocks.

Research Opportunities

In this section we have argued that the extension of the product diversification-performance studies to the international arena is not likely to be fruitful. Some of the reasons why we believe this approach not to be fruitful are echoed in this paper's next section. The lack of clearly articulated theories of why geographical diversification pays, the lumping of all types of geographical diversifications into a single variable, and the overambitious attempt to find a macro-level relationship between this variable and performance are unlikely to pay greater dividends internationally than they have domestically.

Instead, resources need to be devoted to a better understanding of the motives for geographical diversification. International business, fortunately, has a number of well articulated theories of these motives, and some of the arguments of the geographical diversification literature fare poorly when confronted with these theories. Other arguments, however, raise interesting issues, and offer great research opportunities. But they require an in-depth attention to the underlying theories and to whether these theories are consistent with the facts. In that sense, the redirection of research in international geographic diversification (what should really be called international expansion) is similar to that advocated for domestic product diversification in the next section.

Key Research Issues in Corporate Strategy

The domain of corporate strategy is broad. The study of diversification strategy, acquisitions, new ventures, and vertical integration can all be grouped under the rubric of corporate strategy. In this section we do not intend to review and comment upon all elements of this domain. Rather, given space constraints, we will focus our attention upon that element of the domain that has traditionally received the most research attention; namely, the study of the relationship between diversification strategy and corporate performance.

Ever since Rumelt's (1974) seminal work, the study of corporate diversification has been a central theme in the strategy literature. In the twenty years since Rumelt first published his work there have probably been more empirical studies of diversification strategy and corporate performance than of any other phenomenon of interest to strategic management researchers (for detailed reviews see Datta, Rajagopalan & Rasheed, 1991; Ramanujam & Varadarajan, 1989). Most of these studies have tried to answer the question what is the relationship between diversification strategy and corporate performance?
performance? Given the great volume of work in this area, we need to ask: What has been learned? Below we argue that the answer to this question is "very little!" We shall explore four methodological reasons for the apparent failure of strategy researchers to make a great deal of progress in the diversification area. We will argue that each of these explanations for the failure of prior research to make substantial progress also suggests substantial opportunities for future research.

Prior Research

Table I summarizes the results of all empirical studies of the diversification strategy-performance relationship published in either the *Academy of Management Journal* or the *Strategic Management Journal* since 1980. Also included in Table I are the results of a number of often quoted studies published in other top tier journals (e.g., Wernerfelt & Montgomery's 1988 *American Economic Review* study). As such, Table I contains a summary of some of the best diversification-performance studies undertaken to date (if we assume that getting published in *AMJ* or *SMJ* is a signal of quality). Thus, while not a truly representative sample, the studies contained in Table 1 may be representative of the best studies that have looked at the diversification-performance relationship.

There are 32 studies in all summarized in Table 1. Of these, 26 focused explicitly upon the link between diversification strategy and corporate financial performance. The remaining six looked at the link between the degree of diversification and performance. Of the 26 studies that looked at the strategy-performance linkage, 15 found that firms which pursued a related diversification strategy outperformed those pursuing an unrelated strategy, nine found no evidence of any performance differences between strategies, while two studies found that unrelated firms outperformed related firms. Of the six studies that looked at the relationship between the degree of diversification and performance, two found a positive relationship between the degree of diversification and performance, two found a negative relationship, while one found an inverted U-shaped relationship, and one found no relationship. Not exactly a clear picture! Nevertheless, one might argue that the balance of the evidence favors the conclusion that moderately diversified firms that pursue a strategy of related diversification can create value.

This, however, is a very tentative conclusion. It is based upon decidedly mixed evidence. Moreover, the conclusion must be tempered by the realization that the strength of the strategy-performance relationships reported in many studies were weak, while the results themselves were often ambiguous, open to conflicting interpretations, and in any case, probably an artifact of certain methodological choices.

For an example of ambiguous and weak results, take Palepu's (1985) study, which introduced the entropy measure of diversification to the strategy literature. Palepu's (1985) study is usually counted among those that found related diversified firms to have superior performance (we have followed this practice in Table 1). However, Palepu found that related firms had superior
<table>
<thead>
<tr>
<th>Study</th>
<th>Measure</th>
<th>Method</th>
<th>Country</th>
<th>Results</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rumelt (1974)</td>
<td>1</td>
<td>1</td>
<td></td>
<td>Dominant-Constrained and Dominant-Related best performers. Dominant vertical and Unrelated Passive were low performers.</td>
<td>Related Most Profitable</td>
</tr>
<tr>
<td>Christensen &amp; Montgomery (1981)</td>
<td>1</td>
<td>1</td>
<td></td>
<td>Performance differences found in Rumelt (1974) study linked to characteristics of markets in which they operate. Related constrained diversifiers operated in profitable concentrated industries.</td>
<td>High Profitability of Related due to Industry</td>
</tr>
<tr>
<td>Rumelt (1982)</td>
<td>1</td>
<td>1</td>
<td></td>
<td>Related constrained firms are highest performers. Related constrained firms seem to operate in profitable concentrated industries.</td>
<td>High Profitability of Related due to Industry</td>
</tr>
<tr>
<td>Michel &amp; Shaked (1984)</td>
<td>1</td>
<td>1</td>
<td></td>
<td>Unrelated firms outperformed related firms when compared against market based measures.</td>
<td>Unrelated Best Performers</td>
</tr>
<tr>
<td>Palepu (1985)</td>
<td>2</td>
<td>1</td>
<td></td>
<td>Related diversified firms show better profit growth than unrelated firms.</td>
<td>Related better Profit Growth (Weak)</td>
</tr>
<tr>
<td>Montgomery (1985)</td>
<td>2</td>
<td>1</td>
<td></td>
<td>No significant relationship between diversification measures and firm profitability after controlling for market share, industry concentration, and industry profitability.</td>
<td>No Performance Differences</td>
</tr>
<tr>
<td>Bettis &amp; Mahajan (1985)</td>
<td>1</td>
<td>1</td>
<td></td>
<td>Looked at risk/return performance of large firms using accounting data to define risks and returns. Found that, on average, related diversified firms had more favorable risk-return features than unrelated firms. A favorable risk/return performance is extremely hard to achieve for unrelated firms. Used analysis to delineate risk-return groups.</td>
<td>On average, related firms had better risk return performance than unrelated.</td>
</tr>
<tr>
<td>Study</td>
<td>Year</td>
<td>Measure</td>
<td>Findings</td>
<td>Implications</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>------</td>
<td>---------</td>
<td>--------------------------------------------------------------------------</td>
<td>-------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Dubofsky &amp; Varadajan (1987)</td>
<td>1</td>
<td>1</td>
<td>Found agreement between their “Rumelt” classifications and those done by Michel &amp; Shaked (1984). No differences between ROA and diversification strategy, but on market based measures unrelated firms outperformed related.</td>
<td>Convergent Validity Unrelated Best Performers</td>
<td></td>
</tr>
<tr>
<td>Varadarajan &amp; Ramanujam (1987)</td>
<td>2</td>
<td>1</td>
<td>Related diversified firms more profitable than unrelated diversified firms.</td>
<td>Related Best Performers</td>
<td></td>
</tr>
<tr>
<td>Hoskisson (1987)</td>
<td>1</td>
<td>3</td>
<td>Related diversified firms outperformed both vertically integrated and unrelated firms. Adoption of M-form structure (the event) depressed performance in vertically integrated forms, had no effect in related firms, and improved performance in unrelated firms.</td>
<td>Related Best Performers</td>
<td></td>
</tr>
<tr>
<td>Grant &amp; Jammine (1988)</td>
<td>1</td>
<td>2</td>
<td>Diversified firms outperformed specialized firms. No evidence of performance difference between related and unrelated. Did control for industry effects.</td>
<td>Diversified Outperformed Specialized</td>
<td></td>
</tr>
<tr>
<td>Hill &amp; Snell (1988)</td>
<td>1</td>
<td>2</td>
<td>Extensive diversification negatively related to profitability. No difference between diversification category—both did poorly.</td>
<td>High Diversification Low Performance</td>
<td></td>
</tr>
<tr>
<td>Grant, Jammine &amp; Thomas (1988)</td>
<td>1,2</td>
<td>2,4</td>
<td>Inverted U-shaped relationship between performance and degree of diversity. Rumelt categories of little use in understanding this relationship (they don't adequately capture degree). Diversification unrelated to subsequent changes in profitability, and current profitability not related to changes in diversification.</td>
<td>Inverted U-Shaped</td>
<td></td>
</tr>
<tr>
<td>Amit &amp; Livnat (1988)</td>
<td>1,2</td>
<td>2</td>
<td>Related diversified firms had high returns and high risk. Unrelated firms had low returns and low risk.</td>
<td>Related High Returns and High Risk</td>
<td></td>
</tr>
<tr>
<td>Keats &amp; Hitt (1988)</td>
<td>1</td>
<td>1</td>
<td>Part of a larger study. Diversification had a positive impact on risk-adjusted market returns and no relationship to accounting returns. Strategic effects not broken out by diversification type.</td>
<td>Diversified Firms had Higher Market Returns No Difference on Accounting Returns</td>
<td></td>
</tr>
<tr>
<td>Study</td>
<td>Measure</td>
<td>Country</td>
<td>Results</td>
<td>Summary</td>
<td></td>
</tr>
<tr>
<td>-------------------------------</td>
<td>---------</td>
<td>---------</td>
<td>--------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Wernerfelt &amp; Montgomery (1988)</td>
<td>2</td>
<td>2</td>
<td>Looked at impact of industry, focus (diversifications) and share effects on Tobins Q. Found that industry effects accounted for most of variance explained (19.48%) followed by focus effects (2.61%). Narrowly diversified (focused) firms did better than widely diversified firms.</td>
<td>Narrowly diversified firms do better than widely diversified firms.</td>
<td></td>
</tr>
<tr>
<td>Montgomery &amp; Wernerfelt (1988)</td>
<td>2</td>
<td>2</td>
<td>Using Tobin's Q to test the conjecture that large firms earn decreasing average Ricardian rents as they diversify more widely. Results suggest that the further firms must go to use their excess factors of production, the lower the marginal rents they extract, i.e. the more unrelated and extensive firm diversification is, the lower rents. This does not mean that value is not being created, however, only that rents decline.</td>
<td>Rents decline as firms diversify away from their core business area.</td>
<td></td>
</tr>
<tr>
<td>Chang &amp; Thomas (1989)</td>
<td>1</td>
<td>1</td>
<td>Diversification strategy per se does not have an impact upon risk-return profiles. Differences in return across diversified firms explained by size (a proxy for market share) as opposed to strategy.</td>
<td>No Performance Difference</td>
<td></td>
</tr>
<tr>
<td>Lubatkin &amp; Rogers (1989)</td>
<td>1</td>
<td>1</td>
<td>Firms that adhered to related constrained diversification had the highest risk-adjusted returns. Vertical strategies were associated with lowest risk adjusted returns. Unrelated firms had high risk and moderate returns. Most of the variance due to difference in systematic risk, not market returns.</td>
<td>Related Constrained Highest Risk Adjusted Return Due to Lower Systematic Risk</td>
<td></td>
</tr>
<tr>
<td>Hill &amp; Snell (1989)</td>
<td>2</td>
<td>2</td>
<td>Related diversified firms had high productivity. Unrelated firms had low productivity.</td>
<td>Related Best Performers</td>
<td></td>
</tr>
<tr>
<td>Amit &amp; Livnat (1988)</td>
<td>2</td>
<td>2</td>
<td>Develops and tests a measure of efficient corporate diversification on a large sample of firms using accounting data. Found that “efficient diversifiers” managed to reduce the variability of their returns without sacrificing profitability (i.e., no risk-return tradeoff). Efficient diversifiers operate in related industries that had differential responses to business cycle changes and thereby enjoyed the benefits from related diversification while minimizing operating risk.</td>
<td>Efficient diversifiers have better risk return performance. Related firms tend to be efficient diversifiers.</td>
<td></td>
</tr>
<tr>
<td>Author(s)</td>
<td>Measure</td>
<td>Method</td>
<td>Key Measure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------------------------</td>
<td>---------</td>
<td>--------</td>
<td>-----------------------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Simmonds (1990)</td>
<td>1</td>
<td>1</td>
<td>Looked at strategy and mode of diversification. Very weak evidence that related-internal diversifiers outperformed unrelated-external.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lubatkin &amp; Chatterjee (1991)</td>
<td>1</td>
<td>2</td>
<td>Market returns. Firms which diversify by emphasizing a common technological core (related) had lower levels of systematic risk—regardless of economic conditions (cycle). Related diversifiers earn high risk adjusted stock returns in bear markets. No difference exists in bull markets.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rumelt (1991)</td>
<td>2</td>
<td>2</td>
<td>Decomposed variance in returns of FTC line of business data into industry, business unit, and corporate effects. Corporate effects (those that would arise from diversification) found to be &quot;astonishingly small.&quot;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hill &amp; Hansen (1991)</td>
<td>2</td>
<td>4</td>
<td>Increased diversification was found to have a negative impact upon lagged performance and lagged risk. Diversification is a low risk-low return strategy.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Davis, Robinson, Pearce, &amp; Park (1992)</td>
<td>3</td>
<td>2</td>
<td>For firms in the pulp and paper industry, high degree of &quot;marketing&quot; relatedness associated with higher sales growth. High degree of &quot;production&quot; relatedness associated with higher profitability.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hill, Hitt &amp; Hoskisson (1992)</td>
<td>2</td>
<td>1</td>
<td>No evidence of relationship between diversification strategy and performance. However, some evidence of interaction effects between strategy and structure did have a beneficial impact upon performance.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nayyar (1993)</td>
<td>3</td>
<td>2</td>
<td>Looked at diversification by service firms. Ability to exploit information asymmetries had a positive effect on performance. Attempts to exploit economies of scope had a negative effect on performance—may be due to implementation difficulties.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key: Measure: 1 = Rumelt or quasi-Rumelt; 2 = SIC based (e.g., Entropy); 3 = Other. Method: 1 = cross-sectional Fortune 500 or 1000; 2 = Cross-Sectional-Other; 3 = Event Study; 4 = Dynamic; 5 = not applicable.
profit growth, which is definitely not the same thing as superior profitability, so his results are ambiguous and open to conflicting interpretations. Moreover, Palepu's results were, by his own admission, weak. The levels of statistic significance in his study were marginal and the variance explained was small.

For an example of results that were an artifact of methodological choices, consider Rumelt's (1974) original study. Rumelt found that firms pursuing a strategy of related constrained diversification were the most profitable, but Rumelt did not control for industry effects in this study. His later work, which did control for industry effects, found that the high profitability of related constrained firms in his sample was due to industry factors (Rumelt, 1982). So should Rumelt's (1974) early study be counted as evidence in support of the often articulated hypothesis that "related diversification creates value?" Probably not, but it normally is. One might also note that despite the evidence presented by a group of early researchers that the superior profitability of related constrained firms was a function of industry membership, and not a function of diversification strategy (Christensen & Montgomery, 1981; Bettis, 1981; Rumelt, 1982; Bettis & Hall, 1982), many later researchers did not control for industry effects when testing the diversification strategy-performance relationship. One might conclude, therefore, that their results suffer from a serious omitted variable problem, and may well be spurious.

The point here is not to pull apart prior studies, but merely to show how suspect is the ground upon which conclusions drawn from such studies is based. When all is said and done, we really do not have a very clear picture of the relationship between diversification strategy and performance. This despite twenty years of concentrated research effort on the part of scores of researchers, and dozens of published articles. Why not? In the next section we will argue that four methodological problems that are seemingly endemic in the field, and can be found in most of the studies summarized in Table 1, help explain this apparent lack of progress.

Methodological Problems

The four methodological problems that we shall focus on are the limitations of cross-sectional studies, the general failure to explore implementation issues, the over-reliance upon Rumelt's (1974) original classification scheme, and the corporate focus of most prior diversification research. We will argue that the failure of most studies to address even one of these methodological problems raises serious questions about the value of their results.

The Limitations of Cross-Sectional Work

With a handful of exceptions, the studies reported in Table 1 are all cross-sectional (the exceptions include Grant, Jammime & Thomas, 1988; Hill & Hansen, 1991; Hoskisson, 1987). Cross-sectional work suffers from two serious problems. The first is the well known inability of cross-sectional research to distinguish cause from effect. To illustrate the problem, let us take at face value the popular conclusion that the strategy of related constrained diversification is associated with superior corporate performance. This conclusion is based
upon cross-sectional work. Those who argue for this relationship tend to claim that the causal linkage runs from strategy to performance, but it could just as well run the opposite way. It may well be that profitable firms have a tendency to embark upon a diversification strategy, and that their first choice is to diversify into closely related areas that they know something about (for empirical evidence that is consistent with this interpretation see Hill & Hansen, 1991). This would certainly give rise to a positive correlation between related constrained diversification and corporate performance in any cross-sectional study, but the underlying causal chain would flow from profitability to diversification strategy, and not the other way around. In other words, a positive correlation between the strategy of related constrained diversification and profitability can not be taken as evidence that this strategy gives rise to superior performance. The opposite conclusion is equally plausible.

A second problem with cross-section research, and it is one that has far more serious consequences than the inability to distinguish between cause and effect, is that a simple cross-sectional methodology does not allow the researcher to control for the impact of unobservable factors on firm performance. Unobservable factors include such factors as managerial skills and competencies, technical know-how, and tacit organizational routines. The resource based view of the firm argues that such factors may be a prime determinant of firm performance (e.g., Barney, 1991). Yet such factors are buried deep within an organization where they are difficult to observe and measure. This presents researchers with a difficult problem. If such important factors are not controlled for in a regression analysis a serious omitted variable problem arises and the results of any analysis are likely to be spurious.

However, one should not think that just because a variable cannot be observed and measured, it cannot be controlled for. In a series of influential papers, Jacobsen (1988, 1990) has shown how unobservable factors can be controlled for by using a pooled time series research design (i.e., panel data) and auto-regression models. Unobservable factors show up as serial correlation in pooled time series data. The effect of serial correlation can then be factored out using auto-regression techniques. Taking such an approach, Jacobsen has empirically demonstrated that many of the relationships so beloved by PIMS researchers, such as the often reported positive relationship between profitability and market share, are in fact spurious (Jacobsen, 1990). We suspect that if a similar methodology were applied to the study of corporate diversification, many of the relationships documented in prior studies would also turn out to be spurious.

**Implementation Issues**

A second major problem with the vast majority of corporate diversification research is that the issue of implementation has been ignored. This is unfortunate, it is now thirty years since the publication of Chandler’s (1962) *Strategy and Structure*. In that book, Chandler clearly suggested that the impact of diversification strategy on firm performance is moderated by organizational structure. In particular, in order to create value from a diversification strategy,
firms must have a multidivisional (M-form) structure in place. Moreover, it is important to realize that M-form structures do not constitute a homogeneous set of organizational arrangements (Hill & Pickering, 1986). There are well designed M-form structures, and poorly designed M-form structures, and only the former will allow a diversified firm to achieve superior performance.

Most diversification research has adopted the following model:

\[
\text{Performance} = f (\text{Diversification Strategy}) \quad (1)
\]

In doing so, researchers have assumed, we think incorrectly, that there is no variance in the efficacy of organizational structure across firms. We think that the correct model is the following:

\[
\text{Performance} = f (\text{Diversification Strategy, Organizational Structure}) \quad (2)
\]

Testing this model requires the collection of detailed data on internal organizational arrangements, not an easy task, but one that is possible. Moderated regression analysis can then be used to test for the impact of an interaction between diversification strategy and organizational structure on firm performance (for a recent example see Hill, Hitt & Hoskisson, 1992). Alternatively, one might choose to treat organizational structure as an "unobservable variable" and control for its impact upon firm performance using a methodology similar to that adopted by Jacobsen (1990). Either way, it must be recognized that the assumption that organizational structure is invariant across firms, which is implicit in most prior research on diversification strategy, is simply untenable.

**Rumelt's Scheme**

We have all become prisoners of Rumelt's (1974) classification scheme. To get published in a refereed journal, a study on diversification strategy is usually required by referees and journal editors alike to utilize this scheme, or some variation of it. Thus, the vast majority of the studies reported in Table 1 utilize Rumelt's scheme. The popularity of the scheme is a testament to the advantages of being first. In no small measure, its popularity also derives from the fact that it is easy to use.

On the one hand, the insistence that researchers use Rumelt's scheme makes some sense; it does allow for a minimum of comparison across studies. One can argue that it is perhaps better to decide upon a scheme and then stick to it, than have researchers each inventing their own unique way of measuring diversification. On the other hand, the insistence that researchers utilize Rumelt's scheme can be seen as imposing a methodological and theoretical straitjacket upon the field. While this may be acceptable if the construct is theoretically robust, if Rumelt's scheme is flawed in important respects, the dominance of this construct becomes a recipe for a lack of progress. We fear that this may be the case.
The essential problem with Rumelt's scheme is that it lumps together the different economic benefits that might arise from diversification and treats them as synonymous. The scheme is coarse grained and crude. Theory states that there are at least four sources of economic benefit available to diversified firms. These are the ability to realize value from economies of scope, from superior internal governance, from the transfer of core competencies among businesses, and from the joining together of complementary assets (Jones & Hill, 1988; Williamson, 1985; Teece, 1982). A firm that is classified by Rumelt's scheme as pursuing a strategy of related diversification may in fact be creating value by pursuing all four of these sources of benefit simultaneously (Jones & Butler, 1988). Alternatively, it may be focusing upon just one source of benefit, or two sources, or three sources. Similarly, a firm that is classified by Rumelt's scheme as pursuing a strategy of unrelated diversification may be creating value through efficient internal governance and/or by transferring certain core competencies (general management and organizational skills) across business units. Rumelt's scheme, however, glosses over such theoretically based distinctions. It assumes that firms assigned to the same diversification category are focusing upon the same set of economic benefits, when in fact they may not be. The scheme treats firms that are dissimilar as essentially similar, and is therefore incorrect.

Given this, a more fruitful approach might be to place Rumelt's scheme to one side and instead classify firms according to the economic benefit that they are attempting to realize. While this is a methodologically difficult proposition, it is not impossible. For example, semi-structured interviews and surveys might be used to identify the way(s) in which a firm is trying to create value from diversification, in much the same way as researchers have used these techniques to try to distinguish among different variations of the multidivisional structure (Hill & Pickering, 1986). In any event, such an approach is preferable to continuing to rely upon a classification scheme that has the virtue of being easy to use, but which is also seriously flawed.

**Corporate Focus**

Almost all diversification research focuses upon the link between corporate strategy and corporate performance. The problem with this approach is that if there is value to be created by a diversification strategy, it is at the business level where its effect will be most apparent. By focusing upon the impact of diversification strategy on corporate performance, this effect may be masked. For purposes of illustration, consider a firm that has four product divisions, A, B, C, and D, each of which is active in a different business area. Product divisions A and B are successfully sharing resources in order to realize economies of scope. As a result, they are each more profitable than they would be if each was a free standing single business firm in its own right. Diversification, in other words, has created value for divisions A and B. However, divisions C and D may be unrelated to divisions A and B, and division D may be suffering from financial problems. As a result, when performance is consolidated at the corporate level, the beneficial impact that diversification has upon product divisions A and B is masked by the poor performance of division D, and one
might conclude that diversification has not created value for this firm, when in fact it has.

The real issue here is that old methodological bug bear, unit of analysis. Researchers have assumed that the proper unit of analysis for diversification studies is the corporation as a whole. We maintain that if not incorrect, this is at least a debatable point and should not be taken as a given. The proper unit of analysis may be the individual business unit. Perhaps the research question that should be asked is does a business unit benefit from being part of a diversified firm? If this question can be answered in the affirmative, one can argue that diversification does create value. Methodologically, one way to address such a question might be to undertake a matched pairs analysis, comparing the performance of individual business units against the performance of comparable free standing firms. Of course, collecting the data to undertake such an analysis would not be easy, but who said that science was easy? Another way forward might be to build upon Rumelt's (1991) recent work using the FTC line of business data to partial out the impact of "corporate effects" on business unit performance.

Research Opportunities

In sum, each of the four criticisms discussed above represents a research opportunity. Twenty years of research on the issue of corporate diversification has not produced much in the way of intellectual dividends. We believe that it is time for a fresh approach, and that some of the ideas sketched out here represent the way forward. Specifically, we urge empirical researchers to attempt one or more of the following: (1) utilize pooled time series data and auto regression techniques to control for unobservable effects and to disentangle cause and effect relationships; (2) focus on issues of strategy implementation within diversified firms; (3) focus on the source of economic benefit from diversification, as opposed to utilizing Rumelt's scheme; and (4) adopt the business unit as the unit of analysis in diversification studies, as opposed to the corporation as a whole. We believe that by adopting such a fresh approach the field might begin to make progress in tackling this vexing issue.

Research in Business-Level Strategy: Substantive and Methodological Considerations

Whereas corporate-level strategy deals with the question of what businesses to compete in, business-level strategy is concerned with "how should a business position itself among its rivals to achieve its goals?" (Schendel & Hofer, 1979, p. 12). As such, business-level strategy is critical to the success of a firm; it is here that businesses compete directly with others for sales and profits in the marketplace. Competitors may take the form of either a small independent firm or business-unit of a diversified firm.

Over the years, several typologies of business-level strategies have been advanced. These include Buzzell, Gale and Sultan's (1975) building, holding, and harvesting; Utterback and Abernathy's (1975) maximizing performance,
maximizing sales, and minimizing costs; Hofer and Schendel's (1978) share increasing, growth, profit, and liquidation; Vesper's (1979) multiplication, monopolizing, specialization, and liquidation; Miles and Snow's (1978) prospectors, defenders, analyzers and reactors; Wissem, Van der Pol and Messer's (1980) explosion, expansion, continuous growth, slip, consolidation, and contraction; Abel's (1980) dimensions of scope of offerings, degree of competitive differentiation, and extent of differentiation across product-market segments; and Miles' (1982) domain offense and domain defense. However, the framework which has spurred the most theoretical refinement and empirical analysis is Porter's (1980). Accordingly, this section will draw extensively on theory and research based on his work. He suggests that differentiation, overall low cost, and focus are the strategies which provide firms with the ability to attain a competitive advantage and outperform rivals in an industry. In addition, over the last few years, quick response (or speed) has become increasingly recognized as an important additional source of competitive advantage (Stalk, 1988; Bower & Hout, 1988; Hughes, 1990; Thomas 1991). In today's rapidly changing global business environment, managers must often not only provide superior or unique products and/or be cost leaders, but also must respond quickly to changing technological and market demands.

This section of the paper will address substantive and methodological considerations associated with three issues which we believe hold promise for furthering our understanding of the concept of competitive advantage. The first two relate directly to the forms of competitive advantage: (1) Are they multidimensional? and (2) Can they be effectively combined to enhance firm performance? The third issue addresses ways in which the resource-based model (Barney, 1991) can contribute to our understanding of how a firm can attain a sustainable competitive advantage.

Are Generic Strategies Multidimensional?

A central challenge of research in the social science is addressing tradeoffs involving generality, accuracy, and simplicity (Weick, 1976). Theory building and research associated with sources of competitive advantage is, of course, no exception. As noted by Miller, several refinements of Porter's (1980) framework (Galbraith & Schendel, 1983; Hambrick, 1983; Miller & Friesen, 1986; Mintzberg, 1982) "have responded with detailed and elaborate typologies of their own, partly in reaction to the simplicity of earlier schemes and partly in the attempt to give them a more solid empirical base" (1992, p. 392). However, such complexity or accuracy comes at a cost of intuitive appeal and parsimony. Miller (1986; 1988), on the other hand, distinguishes between two types of differentiation—marketing and innovation—and later suggested and provided empirical support for the third—quality (Miller, 1992). It would appear that such a perspective would achieve greater "accuracy" without a burdensome decrease in parsimony. Other writers have suggested alternate viable means of attaining a low cost competitive advantage—cost reductions achieved through factors including economies of scale, economies of scope, and learning effect. Further, Dess and Rasheed (1992) proposed that costs can also be lowered
through the use of low cost labor, reduction of labor content, or by procuring various inputs at costs below rivals. Dimensions of focus strategies have been suggested and empirically confirmed by Nayyar (1992). He recently found that large service firms which focus on selected customer segments outperform firms that focus on their internal capabilities or geographic regions. Finally, dimensions of speed or quick response have been suggested by Vesey (1991) including engineering, production, sales response, and customer service. His examples of how firms became “time-to-market accelerators” include cross functional coordination (“Team Taurus” at Ford Motor, Boeing’s Ballistic Systems Division, and BMW 850i automobile), outsourcing (Amdahl Corporation), and changes in internal organization design (Sun Microsystems). Other dimensions of speed would include marketing efforts, customizing products, and developing new products. The dimensions suggested above for each of the forms of competitive advantage are not, of course, intended to comprise an exhaustive list.

The value chain concept suggested by Porter (1985) may provide a useful framework for understanding the multiple means available to firms to enhance their low cost position, differentiation or quick response. That is, any firm could improve its competitive position along any one or all of the three forms through enhancements in any of the primary (e.g., inbound logistics, marketing) or support (e.g., technology development, procurement) activities.

The issue of dimensionality of the forms of competitive advantage suggests several promising research opportunities. First, are the forms of competitive advantage unidimensional or multidimensional? For example, are the types of differentiation (marketing, innovation, quality) suggested by Miller (1992) independent of each other or do they covary? If they are independent, from a methodological standpoint many measures of differentiation may be subject to aggregation errors. This, in turn, could lead to misleading normative theory. Second, types of differentiation, overall low cost, or quick response may have very different performance implications across industry settings. For example, an innovation-based differentiation strategy may be more appropriate for industries in the early stages of the market life cycle than a quality-based innovation strategy. Or, a quick response strategy emphasizing fast delivery of replacement parts would be more likely to enhance a firm’s position in the earth moving equipment industry (due to expensive downtime) than a quick response strategy focused on developing new products. In addressing the above two issues, the generalizability, accuracy, and simplicity tradeoffs (Weick, 1976) must be recognized. As we discussed earlier in this section, efforts at developing more fine-grained dimensions of each of the three forms of competitive advantage can result in a significant reduction in terms of parsimony. Researchers must strive to match the complexity with which they conceptualize and operationalize the forms of competitive advantage with the research question they are investigating.

**Combining Forms of Competitive Advantage**

Porter has not always been consistent on the viability of combining generic strategies. Sometimes he advocates adherence to a single strategy:
... if a firm is to attain a competitive advantage, it must make a choice about the type of competitive advantage it seeks to attain and the scope within which it will attain it. Being 'all things to all people' is a recipe for strategic mediocrity and below-average performance, because it often means that a firm has no competitive advantage at all (Porter, 1985, p. 12).

At other times, he takes a contradictory position:

... at the broadest level we can identify three internally consistent generic strategies (which can be used singly or in combination) for creating such a defensible position in the long run and outperforming competitors in the industry (Porter, 1980, emphasis added).

Although Porter qualified his position on the inappropriateness of combining competitive advantages, he provided two specific exceptions. First, a tightly focused business, for example, one with a narrowly defined strategic target may be able to attain both a low cost and a highly differentiated position at the same time. Such a combination is considered unlikely to occur in firms serving more broadly defined markets because of the complexity of serving many different market segments. Second, Porter suggested that a combination may be plausible if a firm were the sole producer of a new innovation. Since successful innovations may be copied by competitors or diffused throughout the industry, such an enviable opportunity may be short-lived.

There is a vast body of both theory development and empirical research to support the economic viability of combining generic strategies (e.g., Miller & Dess, 1993). In addition, even casual observation of business practice (e.g., Toyota, Lincoln Electric) strongly supports effective combination strategies. Hall's (1980) research is among the earliest studies which supported the viability of combining generic strategies. He found that the most successful firms in his sample of companies competing in low-profit industries effectively combined differentiation and overall low cost strategies. In Dess and Davis’ (1984) study of 21 firms in the paints and allied products industry, the highest performing firms also combined multiple generic strategies. Kim and Lim (1988) found that the highest performing firms in the Korean electronics industry combined elements of cost leadership and differentiation. Wright, Hotard, Kroll, Chan and Tanner (1990) and Wright, Kroll, Tu and Helms (1991) studied 67 firms in the apparel industry and 56 firms in the screw machine industry. In the former study, the top performers identified with differentiation, focus, and overall low cost strategies; in the latter study, the top performers effectively combined differentiation and overall low cost strategies. And, recently Miller and Dess (1993) studied 1,789 business units from the PIMS data base and found that businesses which combined multiple forms of competitive advantage outperformed businesses which only were identified with a single form. As expected, the lowest performers, consistent with much prior research, were those businesses classified as "stuck in the middle."
Table 2. Combining Generic Strategies: Theoretical Perspectives

<table>
<thead>
<tr>
<th>Source</th>
<th>Excerpt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hambrick (1983, p. 689)</td>
<td>… some attributes of a business may indicate a value for one of the dimensions without indicating anything about the other two. For example, employee productivity says something about the efficiency of the business without saying anything about its differentiation or scale/scope. Thus the three dimensions (efficiency, differentiation, scale/scope) are taken to be conceptually distinct, even if correlated.</td>
</tr>
<tr>
<td>Miller &amp; Friesen (1986, p. 39)</td>
<td>consumer durable producers … can more easily create an image of quality via advertising. If the firm is unfocused and has a high market share it can enjoy important economies of scale in both advertising … and production … Larger, more diversified firms spread advertising and other marketing costs over more units. They can also create a favourable brand image that generalizes to a number of different lines. This may allow them to pursue a strategy of marketing-oriented differentiation as well as one of cost leadership.</td>
</tr>
<tr>
<td>Hill (1988, p. 404)</td>
<td>The ability of differentiation to help the firm achieve a low-cost position depends on two factors: the extent to which expenditure on differentiation significantly increases demand, shifting the demand curve to the right, and the extent to which significant reductions in unit costs arise from increasing volume.</td>
</tr>
<tr>
<td>Murray (1988, p. 395)</td>
<td>… the exogenous preconditions for a viable cost leadership strategy stem principally from an industry’s structural characteristics. The preconditions for product differentiation stem primarily from customer tastes. Because these two sets of exogeneous factors are independent, the possibility of a firm pursuing cost leadership and product differentiation simultaneously is not precluded.</td>
</tr>
<tr>
<td>Jones &amp; Butler (1988, p. 212)</td>
<td>cost leadership and differentiation … are subject to the same underlying cost trade-offs. Further, because transaction costs are the main component of differentiation and production costs the main component of cost leadership, the differences between strategies are ones of degree rather than kind; each strategy is some combination of differentiation and low cost … there may be conditions in certain industry settings in which the two strategies are simultaneously achievable.</td>
</tr>
<tr>
<td>Wright et al. (1991, p. 2)</td>
<td>… select strategic accomplishments may simultaneously lower costs and heighten differentiation independent of scale of operations. These accomplishments may encompass quality improvement efforts (Crosby, 1979), process innovations (Haas, 1987), product innovations (Miles, 1982), and systems innovations (Gluck, 1980).</td>
</tr>
</tbody>
</table>

Such empirical findings support theoretical development on the viability of combining competitive advantages. Jones and Butler (1988) and others have suggested that generic strategies should be viewed as dimensions of strategic positioning as opposed to mutually exclusive entities. Table 2 presents some of the theoretical arguments that have been suggested for the presence and viability of combination strategies. These include the nature of industry structural characteristics and customer tastes (Murray, 1988), the impact of strategic accomplishments such as quality improvement efforts and process
innovations (Wright et al., 1991), transaction costs, production costs, and revenues (Jones & Butler, 1988), and the independence of strategy dimensions (Hambrick, 1983).

Empirical analysis of the viability of combining forms of competitive advantage should include the structural implications of such efforts. For example, an interesting research issue would be how changes in organization design can enhance a firm's sources of competitive advantage. How, for example, do innovative organizational forms such as modular (Huber, 1993; Quinn, 1992), network (Bartless & Cerny, 1993; Ohmae, 1989), and boundaryless (Devanna & Tichy, 1990; Hirschhorn & Gilmore, 1992) improve differentiation, lower costs, and enhance speed? What types of integrating mechanisms (Galbraith & Kazanjian, 1986) and changes in structure (e.g., "delayering") help a business both to lower costs and quicken response in a given competitive context?

Methodological attention could be directed at enhancing the validity of forms of competitive advantage. For example, in addition to using both archival and perceptual sources as methods of measurement, Reger and Huff's (1993) cognitive approaches hold promise. They found that when "industry participants share perceptions about strategic commonalities among firms, ... (they) cluster competitors in subtle ways not reflected in extant academic research on strategic groups" (1993, p. 103). Too often researchers tend to rely on existing scales without sufficient adaptation to a given research context. This serves to inhibit one from capturing the reality, richness, and idiosyncrasies of both the dimensionality of forms of competitive advantage as well as their relationships to one another. Researchers should also endeavor to capture the dynamics of changes in competitive advantages (and combinations thereof) through the use of longitudinal analysis. Promising efforts in this area include Zajac and Shortell's (1989) analysis of strategy/environment combinations over time in the highly regulated health care industry and Mascarenhas and Aaker's (1989) analysis of the role of mobility barriers in affecting changes in strategic group membership in the oil drilling industry over time.

The Resource-Based Model and Competitive Advantage

In the past decade few areas in strategy have drawn as much interest as the resource-based model (see Barney, 1991 and Mahoney, 1992 for comprehensive reviews). This model suggests that "a firm's distinctive competence is based on the specialized resources, assets and skills it possesses, and then focuses attention on the optimum utilization of these to build competitive advantage and thus economic wealth" (Seth & Thomas, 1994). Resources may be in the form of tangible assets such as advanced technological processes or attractive distribution center locations or intangible assets such as reputation for outstanding customer service or a culture exemplified by a strong work ethic. Underlying assumptions of the model are that resources are both heterogeneously distributed among competitors and are not perfectly mobile.

The resource-based model's primary research objective is to combine the analysis of a firm's internal strengths and weaknesses with an analysis of its
external environment. Thus, it provides an important step beyond value chain analysis (Porter, 1985) and SWOT analysis (e.g., Learned, Christensen, Andrews & Guth, 1969) since it provides a framework for identifying what activities within a firm's value chain are sources of sustainable competitive advantage. Barney (1991) identifies four criteria which a resource must satisfy in order for it to provide a firm with a sustainable competitive advantage: valuable, rare, imperfectly imitable, and nonsubstitutable.

Perhaps much of the attractiveness of the resource-based model, in business-level strategy, lies in its promise for stimulating theory and research from multiple perspectives and methodologies (see Mahoney & Pandian, 1992). Hollis (1994), for example, drawing on the industrial organization (IO) perspective, tested the hypothesis that the structure-performance relationship in the traditional IO structure-conduct-performance framework (SCP) differs along industries depending upon which resource is most critical. By using a value-added intensity measure of three variables—capital, advertising, R&D—to identify competitively relevant resources, his findings suggest that industries are heterogeneous and that "differences in the SCP relationships do result from the competitive interaction over the acquisition of different resources" (p. 25). Other research has relied on survey questionnaires to assess industry differences in strategic factor markets and their relationship to financial performance (Powell, 1992) and in-depth case analyses to assess the role of intangible resources in business strategy (Hall, 1992). Powell found that there was not a significant positive correlation between planning and performance in an industry (wood upholstered furniture) in which strategic planning was widely diffused; whereas there was a significant positive relationship in an industry (women's dresses) where planning was not widely diffused—what he termed a "planning disequilibrium industry." Among Hall's findings was that employee know-how and reputation were perceived by top UK executives as the resources most important to success.

In addition to the above, a promising area for research in the resource-based framework is in determining how organizational behavior with its emphasis on socially complex intraorganizational behavior can provide an important source(s) of sustainable competitive advantage (Barney, 1992). These resources, which include culture, friendship ties, effective teamwork, values, etc. "enable an organization to conceive, choose, and implement strategies because of the values, beliefs, and symbols, and interpersonal relationships possessed by individuals or groups" (Barney, 1992, p. 44). Thus, research would serve to combine both "content" and "process" issues, for example, both formulating and implementing strategies. Studying the presence of such resources and their possible linkage to competitive advantage would be facilitated by fine-grained methodologies (Harrigan, 1983) such as in-depth case studies. These methodologies would enable researchers to capture the complex, idiosyncratic, and unique nature of a firm's internal organizational processes and assess the extent to which the processes satisfy Barney's (1991) four criteria for achieving sustainable competitive advantage. As noted by Peteraf (1993), for example, a brilliant Nobel prize-winning scientist, although a unique resource, would not
be a source of sustainable competitive advantage unless she has firm-specific ties. That is, is her productivity in part dependent on her relationship with peers or the unique culture of the firm? If not, perfect mobility would likely keep this individual from becoming a source of sustainable competitive advantage. Two examples from one of the author's recent field research may also help to illustrate the important role of complex social resources in attaining sustainable competitive advantage. First, a medium-sized publishing firm implemented digital processing technology—a "content" issue. Not only did this help to reduce costs and improve image quality, but it also reduced turnaround time from eleven weeks to nine weeks. The improved turnaround is particularly important given the highly seasonal nature of the business—high school and college yearbooks. However, by studying the competitive context and the effectiveness of the implementation (i.e., the relationship of the technology to other systems, work group processes and relationships, production norms, etc.) one would be able to assess whether or not the competitive advantage would be temporary or sustainable. That is, how rare, valuable and easily imitated by competitors is this technology? Are the competitors implementing technologies as well (or better)? Are there viable substitutes with better cost/benefit tradeoffs?

Second, the president of a large computer services firm asserted that relationships across business units were facilitated by his company's reward system which consisted of corporate, division, and business "multipliers," as well as "personal goals and objectives." At first glance, this could hardly satisfy all four of Barney's criteria. However, in-depth analysis could reveal how (and whether) the firm's culture, values, teamwork, and other organizational processes made this reward structure effective (as contended by the president). Some analysis of the firm's competitors would also be necessary to determine the value, rareness, and inimitability of this resource, and thus, whether or not it can provide a base for sustainable competitive advantage. Although this firm's reward system may appear to be outstanding (as well as a source of sustainable competitive advantage), perhaps competitors such as EDS and Arthur Andersen Consulting may have even better reward systems.

As noted earlier in this section, the reliability and validity of research on competitive advantage could be enhanced from the use of multiple sources of data. Secondary data sources could be supplemented by primary data gathered from a firm's executives, industry informants and experts, governmental officials such as those sector professionals from the Department of Commerce, competitors, suppliers, and customers. It would be inappropriate to assess Barney's (1991) four criteria on the basis of primary and secondary data available within the firm. Given the important role of the competitive context, data gathering must extend beyond the focal firm and include the industry structural dynamics and key competitors.

The use of additional data sources needs to also be complemented with improvements in the operationalizations of key constructs. Again, the inclusion of both industry and organizational participants would minimize the potential for strict reliance on research interpretation of observed phenomena.
Executives' judgments concerning resource rareness, value, imitability and nonsubstitutability could be used as alternate operationalizations of these constructs in resource-based strategy content or process studies. Alternately, executive judgment may be useful in providing insight into resource-related strategic choices (Priem & Harrison, 1994).

Finally, the resource-based research must recognize that the resources associated with a firm's value chain activities at one point in time—although perhaps a source of competitive advantage—may become obsolete due to external changes in the competitive and/or regulatory environment. Increasingly, flexibility and the ability to anticipate change are becoming more important in today's global environment. As noted by Ulrich and Wiersema (1989), in turbulent business environments, organizations must enhance their strategic capability (e.g., establish strategic visions, create strategic unity, develop continual competitor scanning) as well as organizational capabilities (e.g., encourage transformational leadership, increase capacity for change, manage organizational practices). Such capabilities inherently involve both content as well as process dimensions and necessitate assessing the competitive context, strategy content, and complex social processes. Here again, the resource-based model provides a useful framework and intensive case methodologies are encouraged. Addressing such research questions hold great promise for enhancing normative and descriptive theory in strategic management.

Integrative Research Across Levels In Strategy

This section of the paper aims to identify some of the more important research issues that cut across the three levels of strategy: corporate, business, and international. To start with, we would like to suggest that there exist at least three different approaches for multi-level research: (1) the additive approach, (2) the comparative approach, and (3) the interdependency approach.

"Additive" research across levels refers to studies which look at the joint (additive but not interactive) effect of strategy at multiple levels on some outcome variable. Additive research begins with the premise that values of some outcome variable depend on the strategic context at multiple levels; thus, it is critical that any attempts to uncover the outcome impact of strategic context at one level control for the potential confounding effect of strategic context(s) at other levels. Some illustrative examples of additive multi-level research are Christensen and Montgomery (1981), Gupta (1987), and Geringer, Beamish and daCosta (1989). Christensen and Montgomery (1981) examined the joint effect of business unit level variables (e.g., industry structure) and corporate-level variables (e.g., product diversity) on corporate performance. Gupta (1987) examined the joint effect of corporate strategy (e.g., product diversity) and business unit strategy (e.g., strategic mission and competitive posture) on the nature of corporate-SBU interaction. Finally, Geringer et al. (1989) examined the joint effect of corporate strategy (e.g., product diversity) and international strategy (e.g., geographic diversity) on corporate performance.
“Comparative” research across levels refers to studies which compare the strength of relationships between certain variables across the different levels of strategy. An illustrative example of comparative research would be a yet-to-be-done study which compared the strength of linkages between general manager characteristics and organizational performance across different levels. As Hambrick and Finkelstein (1987) have argued, the extent of “managerial discretion” is not uniform across organizations and depends on many exogenous as well as endogenous variables. Thus, in addressing a question such as “does leadership matter?” an argument could be made that, on average, focal leadership would have the greatest impact on performance at the level of foreign subsidiaries, an intermediate level of impact at the level of the whole corporation, and the lowest impact at the level of domestic business units. Similarly, comparative studies across levels could be done on issues such as “the risks of agency loss” and “the choice of appropriate governance mechanisms.”

We should also point out that, in general, additive multi-level studies also have a comparative perspective to them. Thus, for example, Christensen and Montgomery (1981) not only examine the effect of corporate strategy on corporate performance after controlling for the effect of business unit level variables, but they also compare the relative strength of the two sets of variables in explaining corporate performance. However, it should be noted that while any additive study can also be interpreted in comparative terms, the reverse is not necessarily true; for example, every comparative study cannot also be interpreted in additive terms. To illustrate, a comparative multi-level study on “does leadership matter?” would be strictly comparative without any additive features to it.

In contrast to the additive and comparative perspectives, the “interdependency” approach focuses on either of two types of issues: (1) the interactive effect of strategy at multiple levels on some outcome variable, for example, a yet-to-be-done study on the interactive impact of corporate and international strategy on the role of the country manager, and (2) the effect of strategic variables at one level on those at another level, for example, a yet-to-be-done study on the impact of corporate strategy on the creation and sustenance of competitive advantage at the business unit level. Relative to the additive and comparative approaches, the interdependency approach is not only the potentially most fruitful one in terms of yielding new insights, it is also the one that has been utilized to the least degree in extant strategy research. In order to help redress this major deficiency, the rest of this section will focus on identifying several largely unexplored research issues in strategy that are rooted in an “interdependency across levels” approach.

**Interdependencies Between the Corporate and Business Levels**

**Impact of corporate strategy on SBU-level performance.** As concluded by Summer et al. (1990) in their review of research in strategy, the impact of corporate strategy on corporate performance has been one of the major topics of investigation over the last two decades. As summarized in an earlier section
of this paper, the results of this stream of work at best remain inconclusive. We would like to argue here that one major reason behind the inconclusive nature of these results has to do with the fact that corporate performance is an indirect (rather than direct) outcome of corporate strategy and that, by and large, extant research has overlooked the significance of this indirectness.

Note that, in any multibusiness company, corporate performance is computed by aggregating the performance of the various constituent businesses. Thus, for theory development regarding the corporate strategy-corporate performance linkage, it is important first to theorize about the direct impact of corporate strategy on SBU-level performance. More precisely, the following "multi-level integrative" question emerges as an important area for future research: How can one decompose the impact of corporate strategy (i.e., extent and type of diversification) on an individual SBU's competitive position in terms of the following elements: (1) impact on the SBU's market power, (2) impact on the SBU's ability to understand market needs, (3) impact on the SBU's ability to differentiate its product-service mix from those of competitors, (4) impact on the SBU's cost structure, and (5) impact on the riskiness of the SBU's earnings and cash flow stream?

Impact of SBU-level resource characteristics on corporate strategy. Virtually all existing research on corporate strategy has been rooted in a comparison between related and unrelated diversification. Note, however, that the direct alternative to "related diversification" is "external strategic alliances" and not unrelated diversification. Similarly, the direct alternative to "unrelated diversification" is "capital market governance" and not related diversification. Thus, any explanation of why related or unrelated diversified firms exist must be rooted in explanations of when and why (1) intra-corporate resource sharing is superior to external strategic alliances, and (2) internalization of the capital market is superior to external capital market governance.

Take, for example, the case of related diversification as illustrated by the case of United Airlines under Richard Ferris, its former CEO. In order to capture potential marketing synergies between air travel, hotels, and car rentals, Ferris converted United Airlines into Allegis Corporation, a travel-related diversified company, which owned United, Hilton Hotels, Westin Hotels, and Hertz. However, unlike United, American Airlines pursued the capturing of these synergies not through corporate diversification but through strategic alliances with Sheraton Hotels and Avis Rent-A-Car. As it turned out, in this context, the external alliance approach proved to be the more efficacious one and, eventually, Ferris was forced out and Allegis disbanded. As this example illustrates, in virtually all instances where potential synergy exists, the company must choose between two distinctly different organizing modes: related diversification vs. strategic alliances. How are these choices made and what factors determine when one or the other approach will prove to be more efficacious? In an initial attempt at addressing this question, Gupta and Singh (1993) have suggested that the answer may lie in the characteristics of SBU-level resources that need to be pooled in order to yield synergistic gains.
Similarly, it is conceivable that the relative efficacy of unrelated diversification vs. external capital market governance may depend at least partly on the nature of the SBU-level resources that need to be “governed.” Thus, more broadly stated, the following integrative multi-level question also emerges as a potential avenue for future research: How do SBU-level resource characteristics affect the relative efficacy of related diversification vis-a-vis external strategic alliances and unrelated diversification vis-a-vis external capital market governance?

**Impact of SBU strategy on corporate control.** As Chandler (1962), Vancil (1980), Hill, Hitt and Hoskisson (1992) and others have argued, corporate strategy has a significant impact on corporate structure and the nature of corporate control over SBUs. However, as Gupta and Govindarajan (1986) and Gupta (1987) have argued, in most diversified firms, there exists considerable intra-corporate strategic diversity across SBUs and that this diversity is mirrored in intra-corporate variations in corporate control over individual SBUs. Notwithstanding some extant work on the impact of SBU strategy on corporate control, other interesting questions remain unexplored and should serve as the bases for future investigations; for example, (1) Do intra-corporate variations in SBU strategies and corporate control create cognitive overload for the corporate center? If so, under what circumstances? (2) Does inter-SBU strategic diversity along some dimensions create less cognitive overload compared with that along some other dimensions? and (3) How does the risk of cognitive overload shape corporate strategy, for example, decisions regarding the extent and type of diversification?

**Interdependencies Between the Business and International Levels**

**Impact of business strategy on international strategy.** Business strategy is generally defined in terms of the intended basis for competitive advantage within a specified industry (Porter, 1980). Taking the product-market scope as a given, any SBU has basically three choices regarding competitive advantage: superior products and services, lower prices, or a combination of the two. On the other hand, international strategy is generally defined in terms of the global configuration and coordination of the various elements of the value chain (Porter, 1986). At one extreme, a “multidomestic” strategy implies a situation where the multinational company creates a complete value chain in every country and inter-country coordination is low. At the other extreme, a “transnational” strategy implies that different elements of the value chain are concentrated in different countries, no country has a complete value chain, and the level of inter-country coordination is very high (Porter, 1986; Bartlett & Ghoshal, 1989).

An interesting and yet-unexplored question would be whether there is a systematic linkage between business strategy and international strategy. We would argue that, ceteris paribus, the more customized a company’s products and services are to a particular customer’s needs, the greater will be the differentiation advantage perceived by the customer; also, the greater the differentiation advantage created by the SBU, the less critical it may be to
capture the scale efficiencies resulting from global centralization. Similarly, for an SBU whose intended competitive advantage is lower prices, cost minimization is likely to be far more critical than product or service customization. In other words, it seems likely that, on average, (1) strategies of differentiation may be associated more strongly with multidomestic than with transnational strategies, and (2) strategies of cost leadership may be associated more strongly with export, global, or transnational than with multidomestic strategies. Such integrative issues across business and international levels of research have yet to be examined empirically.

**Role of the SBU general manager.** Every SBU that competes across countries can be conceptualized as a network where (1) the various subsidiaries constitute the nodes of the network, and (2) these nodes are connected to each other through potentially three types of flows: capital flows, product flows, and knowledge flows (Gupta & Govindarajan, 1991). In the case of an export-oriented SBU, the global network is likely to be characterized primarily by product flows. In contrast, in the case of a multidomestic SBU, the global network is likely to be characterized by capital and knowledge flows. Finally, in the case of a transnational SBU, the global network is likely to be characterized by all three types of flows (i.e., capital, product, as well as knowledge flows). Since one of the principal tasks of any SBU general manager would be to create and manage the appropriate type of network, it can be expected that the role of the SBU general manager would depend heavily on not just the SBU strategy but also the international strategy. Thus, an interesting avenue for future research would be: how does the peculiar nature of the SBU’s global network affect the role of the SBU general manager?

**Interdependencies Between Corporate and International Levels**

**Antecedents and consequences of alternative evolutionary paths.** Focusing on the twin dimensions of product and geographic diversification, at one extreme, we find single business domestic companies such as Giant Food (a food retailer headquartered in the Metropolitan Washington area) and, at the other extreme, we find diversified multinational companies such as General Electric. There are three evolutionary paths through which a single business domestic firm can become a diversified multinational company: (1) product diversification as the first step followed by globalization as the second step, e.g., the case of General Electric; (2) globalization within the single business as the first step followed by product diversification as the second step, for example, the case of Saatchi and Saatchi; and (3) simultaneous push towards product diversification and globalization, for example, the case of Amer Group, a Finnish paper and tobacco products company which diversified into the sporting goods industry through the acquisition of the U.S.-based Wilson Sporting Goods Company. An as-yet-unexamined research question is: What are the antecedents and consequences of these alternative evolutionary paths towards product and geographic diversification? From the work of Nelson and Winter (1982), we know that organizational routines are both history dependent as well as resistant to quick mutations. Thus, a company which undertakes
product diversification as the first step is likely to build quite different “parenting” routines (Goold, Campbell & Alexander, 1994) as compared to a company that undertakes globalization as the first step. It should be expected that these differences in parenting routines would be important explanators of why different diversified multinational corporations are managed differently.

**Role of the country manager.** In the case of any diversified multinational corporation such as General Electric or Procter & Gamble, it is virtually a certainty that, in any single country, the company would have (1) several subsidiaries or profit centers each belonging to a different global SBU (e.g., P&G Detergents/France, P&G Foods/France), and (2) a country manager who is the “legal” head of all of the multinational corporation’s activities in the particular country. Thus, any single subsidiary in a foreign country is likely to find itself involved in at least two relationships—one with the global SBU manager for that business and the other with the local country manager.

Field studies by one of the authors of this paper indicate that, at a minimum, every country manager would have a local “infrastructure management role” encompassing activities such as political relations with the host government, relationships with local unions, relationships with campuses where the local subsidiaries go for recruitment, and treasury and tax management. However, going beyond this infrastructure role, some country managers may also have a major “strategic” role (i.e., guiding, approving, and controlling the strategies of the local subsidiaries) whereas other country managers may have only a very minor strategic role. How might we systematically explain the differences in the “strategic” responsibilities of country managers? So far, this remains a largely unexplored question. Our preliminary conjecture would be that, for any local subsidiary, there are two potential avenues for strategic coordination with other subsidiaries: (1) strategic coordination with subsidiaries in other countries belonging to the same SBU, for example, P&G Detergents/France vis-a-vis P&G Detergents/Germany; and (2) strategic coordination with subsidiaries located within the same country but belonging to different SBUs. In the case of a corporate strategy of unrelated diversification, the need for the second type of coordination is likely to be low or absent; in contrast, in the case of a related diversified firm, the need for intracountry coordination across subsidiaries may well be high. Thus, we would hypothesize that the role of the country manager may be “both infrastructural and strategic” in the case of global related diversified firms (e.g., P&G) whereas it may be “primarily infrastructural” in the case of global unrelated diversified firms (e.g., GE).

**Interdependencies Across the Corporate, Business, and International Levels**

One area where the simultaneous integration of corporate, business, and international strategies (i.e., strategies at all three levels) is starkly evident is in the case of the recent trend towards the dispersion of worldwide SBU headquarters responsibilities to different countries rather than concentration in the same country as the corporate parent (Porter, 1994). This trend is illustrated by examples such as the British company ICI which manages its
worldwide explosives business from an SBU headquartered in Toronto, the Korean company Hyundai which has located the global home base of its personal computers business in California, or the American company du Pont which has located the global home base of its Lycra business in Germany. In examples such as these, it may often be virtually impossible or meaningless to draw any clear boundaries between corporate, business, and international strategies.

There are at least four important yet-to-be-addressed research questions pertaining to this emerging trend towards the geographic dispersion of SBU-specific global home bases: (1) How do corporate-level characteristics affect a company’s disposition to locate the global home bases of product lines in foreign countries? (2) How do product line characteristics affect the decision to locate the global home base of the product line in a foreign country? (3) What factors affect the choice of location for the global home base of a product line? (4) How do the “coordination and control” mechanisms linking a global home base subsidiary to the rest of the company differ from those utilized in the case of domestic-based global SBUs as well as other foreign subsidiaries that are not global home bases?

Summary

The central underlying premise of this section has been that integrative research studies across two or more levels of strategy represent some of the most fruitful avenues for future investigations in strategic management. We have also suggested that, of the three possible approaches to integrative research (additive, comparative, and interdependency), the interdependency approach may have the highest potential to add value. Building on these assumptions, we have attempted to identify and outline potential research topics and questions that fall under either of four types of integrative research: (1) integration across corporate and business strategy; (2) integration across business and international strategy; (3) integration across corporate and international strategy; and (4) integration across corporate, business, and international strategies. As the last section dealing with geographic dispersion of SBU global home bases suggested, trends in the actual behavior of large corporations may be such that, for strategy scholars, the issue of whether or not to do integrative research may increasingly become non-discretionary.

Conclusion

In the previous four sections, we have articulated what we believe to be among the most fruitful areas for future research inquiry in strategic management. We have endeavored to minimize errors of commission. At the same time, and given the practical constraint of page limitations, we hope to stimulate a dialogue concerning “perceived” errors of omission. To paraphrase the old saw: “One researcher’s passion is another researcher’s poison!” Accordingly, we’ll gauge our success as the extent to which our efforts result in meaningful discussion, debate, and critique.
Acknowledgment: The ideas in this paper were initially developed for a joint symposium proposal presented to the Business Policy and Strategy and the International Management Professional Divisions at the 1993 Academy of Management Meetings in Atlanta, Georgia. We would like to thank Richard Priem, Abdul Rasheed, Tom Roehl, and Bruce Walters for their helpful and constructive comments.

Note

1. This is not strictly true since MNEs have also arisen to internalize the markets for tangibles, for example raw materials.

References


Hollis, D.J. (1994). The resource based view of the firm and the importance of factor markets, working paper. Harvard Graduate School of Business Administration, Boston.


*JOURNAL OF MANAGEMENT, VOL. 21, NO. 3, 1995*


### Bibliography


Rangan, S. (1994). Are MNE hierarchies less globally flexible or more so than arm's length markets? Paper presented at the International Conference on Global Competition, University of Illinois, Champaign, IL.


JOURNAL OF MANAGEMENT, VOL. 21, NO. 3, 1995


