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# TESTING RESOURCE-BASED AND INDUSTRY FACTORS IN A MULTI-LEVEL MODEL OF COMPETITIVE ADVANTAGE CREATION

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## ABSTRACT

*This study examined an integrative, multi-level conceptual framework incorporating manufacturing facility practices and performance, factors influencing industry rivalry, and firm-level creation of economic value in order to partially explain the creation of competitive advantage. Additionally, this article supports work establishing environmental practices and performance as a strategic factor in manufacturing. Data from a cross-sectional sample of 250 corporations with 1762 manufacturing facilities in four industries are analyzed in a structural model. The study results indicate: (1) strategic environmental asset productivity within manufacturing facilities contributes to firm-level value creation; (2) complementary environmental assets within manufacturing facilities strengthen the relationship between asset productivity and firm-level value creation; (3) firm-level value creation mediates the relationship between manufacturing facility asset productivity and a competitive advantage; and (4) firms competing within industries with greater numbers of competitors experience a stronger relationship between firm-level value creation and a competitive advantage. This paper supports the role of the resource-based construct of value creation as a mediating variable.*

## INTRODUCTION

The development of the resource-based view (RBV) of competitive advantage (Barney 1991) is seen by many management researchers as having the potential to become a theory-based successor to contingency/fit models of strategy if integrated with industry level frameworks (Conner 1991; Helfat & Lieberman, 2002; Levinthal & Myatt, 1994) and intrafirm models of strategy formulation and implementation (Govindarajan and Fisher, 1990; Ramanujam & Wiersema, 1986). In particular, efforts to operationalize and test resource-based concepts have tended to draw direct linkages between internal strategic assets and market outcomes (McGrath, MacMillan & Venkatraman 1995) and treated strategic industry factors as influences to be controlled rather than integrated into a multi-level model.

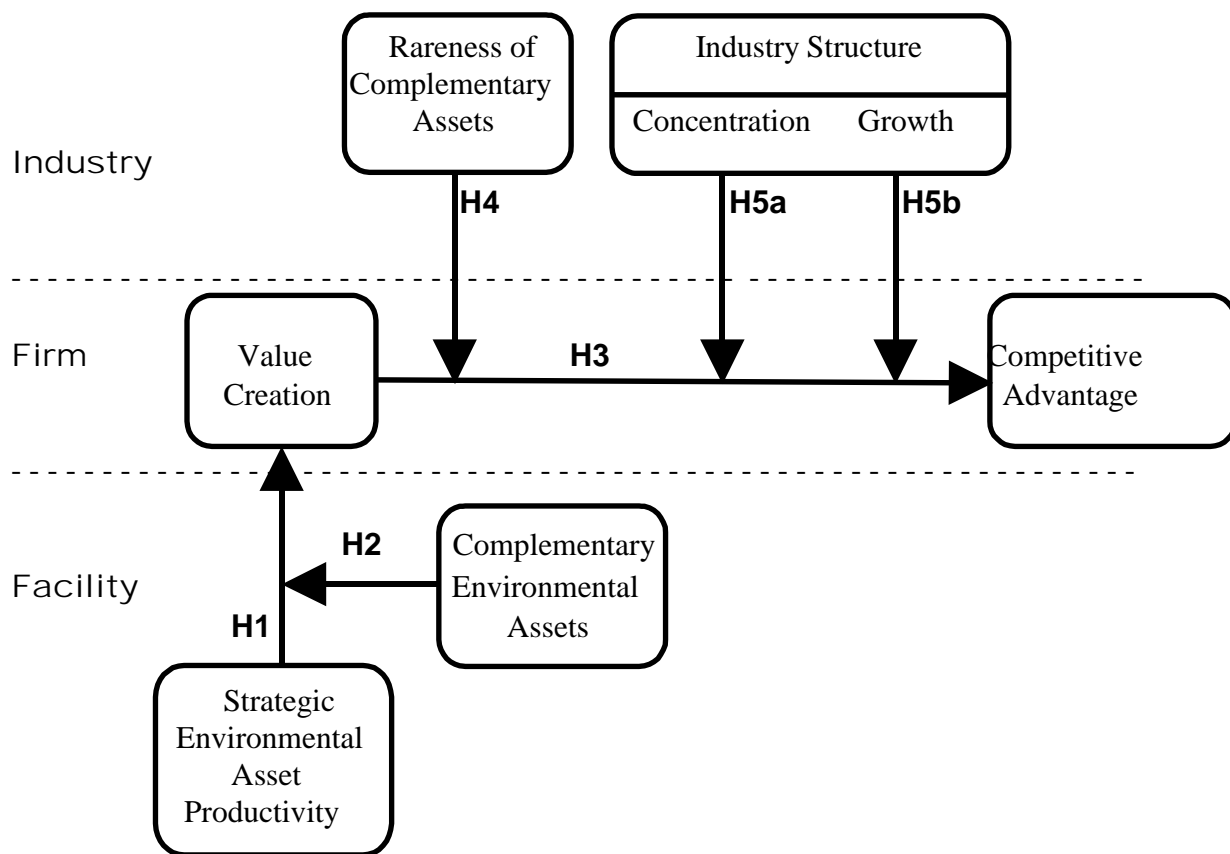
This research adds four important contributions to the literature by empirically testing a multi-level model that employs *both* firm-based and industry-based factors related to competitive advantage creation. First, the research tests the effect of value creation as a mediator between important strategic assets and a firm's financial performance. Second, it tests the moderating effect and importance of complementary assets on the relationship between strategic environmental assets and their value-creating efficacy (Vicente-Lorente, 2001). Third, the paper tests the influence of complementary environmental asset rareness within our multi-level model. Few, if any, tests of asset rareness have been explored and this is a key industry-level element of the RBV (Priem and Butler, 2001). Finally, the fourth contribution of the study extends recent work (Russo & Harrison,

2005) examining pollution performance as a source of competitive value by integrating the effects of intrafirm environmental assets with external contingency factors into one testable model.

The interaction of strategic and complementary assets and the creation of value are conceptual linchpins in the RBV's explanatory power and are needed to answer the "how" question about competitive advantage creation proposed by Priem and Butler (2001). These scholars have reiterated the need to better clarify the interaction of internal value creation and the competitive context within which it is deployed. Hence, it is appropriate to begin exploring the linkages between internal strategic assets as proposed by the RBV framework and external competitive conditions.

The scope of this model was limited to the multi-level *creation* of competitive advantage and includes the factors of value creation and rareness.

Figure 1  
Proposed Multi-Level Model of Competitive Advantage Creation



**HYPOTHESES**

Environmental performance has previously been established as a strategic issue for many manufacturing firms since it is often advantageous for them to integrate it into their plans for economic performance (King and Lenox, 2000). Another major element of the RBV that serves as a criterion for prioritizing resource and capability development is the firm-level concept of *value creation*. The question remains as to whether product-level results would consistently aggregate to

firm-level value creation superiority. Our study attempted to accomplish this with another form of strategic asset productivity—pollution reduction at the manufacturing facility level. The research focused on pollution reduction and we limited our examination of the relationship between strategic assets and value creation to production efficiency. Hence, the more *productive* the strategic assets in lowering relative pollution levels of a manufacturing firm within an industry, the greater the expected value creation for the firm.

Hypothesis 1: The productivity of a firm's strategic environmental assets is positively related to internal value creation.

*Complementary assets* or capabilities “refer to a firm's capacity to deploy *resources*, usually in combination, using organizational processes, to affect a desired end” (Amit and Schoemaker, 1993, p. 35). The vast majority of these actions are based in the development of new operational routines across functional departments. One set of capabilities that has recently been noted as contributing to operational efficiency is the internal organizational activities supporting pollution prevention (Hart and Ahuja 1996).

In keeping with the theory of complementary assets, waste management activities have limited ability to generate significant economic value creation by themselves. However, when aggregated across the organization and combined with a firm's other strategic manufacturing assets (Klassen & Whybark, 1999), these complimentary assets can enhance a firm's realization of its value creating potential (Dutta, Zbaracki, & Bergen, 2003). As complementary assets, waste management activities serve to strengthen the relationship between the effectiveness of strategic assets associated with lowering pollution levels and enhanced production efficiency potentially resulting in a cost advantage (Christmann 2000). Hence, in the RBV, complementary assets, such as waste management practices, have a moderating rather than a direct role in contributing to a firm's competitive value.

Hypothesis 2: Complementary assets will moderate the relationship between the productivity of a firm's strategic assets and value creation: this relationship will be stronger for firms with higher levels of complementary assets.

Barney has defined *competitive advantage* in terms of “implementing a value creating strategy not simultaneously being implemented by any current or potential competitors” (1991: 102), although a monopoly position with respect to strategic resources is not necessary to gain advantage from a value creating strategy. Black and Boal (1994) emphasized the role of asset-strategy “fit” in creating value is contingent upon the fit of the firm's strategy with the external environment. Thus, the ability of value creation to mediate the relationship between strategic environmental asset productivity and competitive advantage in the form of above-normal economic rents must be determined externally to the organization (Priem & Butler, 2001). For example, *ceteris paribus*, cost-driven value creation can result in superior economic rents only when a firm's strategic asset productivity can lower its cost structure *relative* to other competitors (Porter, 1985). Therefore, we assert that the cost-related value creation of strategic environmental assets will be related to competitive advantage.

Hypothesis 3: A firm's value creation is positively related to a competitive advantage.

The scarcity of particular strategic assets across a population of competitors has been labeled *rareness* in the RBV (Barney 1991). Rareness implies that valuable resources and capabilities must be in limited supply within the industry or market area in order for an organization to realize

competitive advantage. The lack of preciseness concerning the degree of rareness necessary to generate rents suggests that the best way to empirically evaluate this concept is within each industry under study. There has been little distinction between the rareness of strategic assets generally and the subset of complementary assets. Hence, an industry-level moderating influence of strategic asset rareness between firm value creation and competitive advantage was hypothesized.

Hypothesis 4: Rareness of a set of complementary assets in an industry will moderate the relationship between value creation and competitive advantage; this relationship will be stronger the lower the industry diffusion of complementary assets.

Not only is the process of competitive advantage affected by asset rareness, but also by *industry structure*. The ability of internal value creation to produce above-normal economic rents is influenced by a number of industry factors including the level of competition, product differentiation, barriers to entry, and cost structures (Barney, 1997). Thus, external industry-level factors should also be considered in determining the degree to which superior value creation can be converted into superior financial performance.

Porter (1985) argued that the greater the number of competitors within an industry, the greater the diversity of strategies, capabilities, and market segmentation. This results in greater strategic uncertainty, higher mortality rates, and increased efficiency pressures for each firm (Barney, 1997). Therefore, this research suggests a moderating role of industry concentration on the relationship between competitive value and the ability to generate a competitive advantage, with the relationship being strongest in more rivalrous markets.

Hypothesis 5a: Industry concentration will moderate the relationship between value creation and competitive advantage; this relationship will be stronger the lower the industry concentration.

In addition to industry concentration, the growth rate of an industry influences internal rivalry. A higher level of competition will be found in an industry with a lower growth rate, reflecting an increasingly zero-sum game of mutual dependence. In such an environment, a firm must directly wrestle away customers and sales from rivals (Porter, 1985). Thus, the lower the growth rate the greater the intensity of rivalry between firms and the greater the influence on the relationship between value creation and its efficacy in producing a competitive advantage.

Hypothesis 5b: Industry growth will moderate the relationship between value creation and competitive advantage; this relationship will be stronger the lower the growth rate of an industry.

## SAMPLE AND MEASURES

To allow for diversity in pollution performance across industries a sample of firms was selected from four manufacturing industries (2-digit SIC) with varying levels of pollution burden per production facility from 1991 to 1993. This time frame was chosen because US companies were required to begin reporting toxic emissions of over 300 chemicals beginning in 1988 (Office of Pollution Prevention & Toxics, 1995) to the Toxics Release Inventory (TRI) database managed by the federal Environmental Protection Agency (EPA). Sampling the companies reporting a few years after the introduction of TRI reporting allowed for considerable standardization of EPA reporting processes to help ensure reliability of the data. An additional benefit of this time frame was broader variability in pollution prevention practices before companies moved down the learning curve in later years towards a smaller set of pollution prevention activities (TRI Program Division, 2005).

All publicly-owned firms from these four industries that reported chemical releases to the air, water, or land in the 1992 TRI database, and for which no missing data was evident across all of the study variables, were included in the sample based on their primary 2-digit SIC. The final sample consisted of 250 corporations (80% of the total reporting) in four industries distributed as follows: Forty-one in SIC 26 (95% of the total reporting), forty-three in SIC 33 (72% reporting), eighty in SIC 35 (71% reporting), and eighty-six in SIC 36 (90% reporting). Table 1 contains selected variables for 1992 with which to compare these four industries. As can be seen, there is considerable variability across the selected industries in terms of the average number of employees, manufacturing facilities per firm, and annual sales.

This study adopted the proxy measure of pollution level to represent the *strategic environmental asset productivity* of their related manufacturing processes. The final measure of strategic environmental asset productivity was then calculated by taking the ratio of the natural logarithms of this weighted pollution volume and the firm's annual sales volume. The logarithm of the total number of waste management activities per facility aggregated for each parent firm for the years 1991 and 1992 was used to measure complementary environmental assets.

Costs can be used as a "surrogate for value" when "there are no (*external*) markets for intermediate goods" (Hergert and Morris, 1989, p. 183). Thus, a proxy for firm-level *value creation* was calculated by taking the ratio of the natural logarithms of both cost-of-goods-sold and the firm's annual sales volume. Firm-level financial performance adjusted for industry effects has been used as a proxy for the supranormal rents associated with resource-based *competitive advantage* (Powell, 1995). Return on Assets (ROA) was used to measure the ability of firms to realize superior economic rents through successfully leveraging the value they created in terms of manufacturing efficiency (Barney, 1997) and was standardized for industry control.

Two industry structure measures were included in order to assess the external impact of the environment on the ability of the additional value created to generate competitive advantage. The first, *industry concentration*, used the four-firm concentration ratio of the primary 4-digit SIC associated with each firm. The second industry structure measure, *industry growth*, was measured as the annual percentage increase in industry sales for the five year period between 1989 - 1993 for the primary 4-digit SIC associated with each firm.

The effect of *asset rareness* in the context of this study was calculated for each of the industries for both 1991 and 1992 by dividing the number of TRI-reporting facilities in each 4-digit SIC that reported waste management activities for each year by the total number of facilities in the TRI data base for that year and changing it to a average percentage. Industry differences and firm size were used as control variables.

## ANALYSIS AND RESULTS

LISREL 8 was the analytical procedure used to estimate this structural equation model. This technique combines path analysis with multiple regression analysis (Joreskog and Sorbom 1993) in a manner that matches the theoretical model displayed in Figure 1. The fit of the model was tested using the Comparative Fit Index (CFI) suggested by Bentler (1990). Values of the CFI should realistically range from 0 to 1, with the values closest to 1 representing the best fit (Marsh, Balla & McDonald, 1988). The value of the CFI calculated in this study was 0.91, suggesting that the model estimated fits the data sufficiently well. The structural model accounted for 23% of the variability in the value creation variable and 9% of the variance in the competitive advantage variable. All of the component variables of the moderator variables had non-significant direct effects, further supporting the overall model.

A significant relationship between strategic environmental asset productivity (pollution level) and value creation (manufacturing efficiency) was found in our data set. The standardized coefficient associated with the relationship between strategic environmental asset productivity and



value creation is 0.21 and is significant at the .001 level. The sign and significance are as expected by the theory. The indications are that lower levels of toxic pollution lead to reductions in a firm's cost-of-goods-sold. Hypothesis 1 is, therefore, confirmed.

Hypothesis 2 is supported by the data. The relationship between strategic environmental asset productivity and value creation is conditioned by the level of complementary environmental assets (waste management practices) that exist in the organization. The standardized coefficient corresponding to the interaction of strategic environmental asset productivity and complementary environmental assets is 0.15 and is significant at the .01 level. This signifies that the greater the development of an organization's complementary environmental assets, the stronger the relationship between strategic environmental assets and firm-level value creation.

Hypothesis 3 is also firmly supported by the data. A positive relationship was found between value creation and competitive advantage. The standardized coefficient corresponding to this path in the model was 0.19 and is significant at the .01 level.

Hypothesis 4 is not supported by the data. The moderating role expected by theory concerning the effect of the rareness of complementary environmental assets on the relationship between value creation and competitive advantage (relative profitability) was not found.

Two industry structure variables affecting the intensity of rivalry were hypothesized to moderate the relationship between firm-level competitive value and above-normal economic rents. The standardized coefficient associated with the interaction of industry concentration and firm-level competitive value on competitive advantage is -0.19 and is significant at the .01 level and confirms Hypothesis 5a. Although in the hypothesized direction, the standardized coefficient corresponding to the interaction of industry growth and value creation is not significant. Thus, Hypothesis 5b is not supported by the data.

## DISCUSSION AND CONCLUSIONS

The purpose of this study was to empirically examine within the resource-based perspective key mediating and moderating relationships across three levels of factors influencing the creation of competitive advantage. The results of this study support a direct relationship between strategic environmental asset productivity and value creation and this suggests that the value creation process is dependent upon successfully extracting asset productivity through superior process execution. Thus, a manager must be as concerned with superior process execution to create value as much as with the ongoing competitive advantage sustainability factors of resource imitability or embeddedness of unique competencies (Priem & Butler, 2001).

This study also empirically supported value creation as the firm-level outcome of aggregated, manufacturing facility strategic assets that can lead to *potential* competitive advantage. As such, value creation represents the resource-based "market bet" made by a strategic business unit as the basis for its competitive advantage when it is not relying on positional strength (e.g., market share). These results suggest that future research needs to include value creation as a mediating variable or little progress will be made in understanding the interaction of strategic assets and competitive advantage.

For a manager, the addition of this mediating factor could mean the difference between fostering further development of a capability through either reassessment or elimination. For pollution prevention capabilities aimed at improving operational efficiency and pollution burdens, such a reassessment may reveal poor implementation or procedural training rather than inherent inability to contribute to such objectives.

Empirical support regarding the moderating relationship of complementary environmental assets between strategic environmental asset productivity and value creation represents another contribution of our study. Our study suggests that pollution prevention practices moderated the relationship between intra-firm strategic asset productivity (environmental performance) and firm-

level manufacturing costs. While these results support Makadok's (2001) discussion concerning the complexity of resource and capability combinations in creating value, they also point out the multi-level nature of strategic assets. Our measurement of complementary environmental assets and strategic environmental asset productivity were aggregated from the manufacturing facility level to the firm-level in order to test their overall contribution to value creation. This effort suggests that the oft-mentioned "unobserved variables" associated with resources and capabilities do have viable measures and explanatory power and should not be ignored by researchers despite the measurement challenges.

Relatedly, the complementary assets examined in this study--pollution prevention activities—extends research into an area not usually considered a primary source of competitive value. The waste management activities within the firm are generally located at the manufacturing facility level. They represent management's resource focus on individual and team efforts to improve selected processes within a facility with pollution prevention and organizational efficiency as key measures. From a manager's perspective, the focus should then be on the synergistic, manufacturing productivity benefits of complementary environmental capabilities.

It was also the intent of the paper to test the moderating influence of complementary asset *rareness* on the relationship between value creation and competitive advantage. As a snapshot of this process, the study did not find that the lower the proportion of competitors also having complementary environmental assets in an industry, the stronger the relationship between value creation (manufacturing efficiency) and competitive advantage (above-normal economic rents).

Another contribution of our study pertains to the moderating influence of industry structure on the relationship between firm-level value creation and competitive advantage. Linkages of strategic industry factors with intra-firm strategic asset elements have rarely been investigated. We explicitly attempted to integrate facility and firm-level resource-based constructs as well as industry-level factors to move towards a more integrative framework explaining the phenomenon of competitive advantage.

For the industry structure element of concentration, such a moderating influence was supported. Specifically, low concentration strengthened the positive relationship between value creation and above-normal economic rents. This provides further support for the contextual breadth of the RBV and reinforces the findings of Cool et al (1989). That is, the greater the intensity of competition, the greater the ability of the intra-firm produced value to create competitive advantage.

Surprisingly, the industry structure dimension of growth did not seem to substantially moderate the relationship between competitive value and superior economic rents. Perhaps the unrelated diversification of many sample firms mitigated the ability of industry growth to sufficiently influence rivalry. Future research might investigate the role of diversification and industry growth on the relationship between internally generated value creation and superior economic rents.

This study can generalize to the creation of a competitive advantage, but not to the durability of competitive advantage over time. It has been suggested that like all strategic assets, environmental technologies and capabilities evolve over time as new public policy comes into effect and firms develop a greater understanding of how to reduce or eliminate their environmental burdens (Bansal, 2005). Thus, future research should continue to investigate the change dynamic between strategic industry factors and strategic asset development.

In conclusion, this study found support for a multi-level, resource-based model that had not been previously tested. Support was found for the influence of value creation and one dimension of industry structure on the process of competitive advantage. Furthermore, complementary environmental assets at the manufacturing facility level were also shown to influence value creation. This variable demonstrates the importance of including manufacturing facility assets that represent difficult-to-imitate organizational processes. Future research on the resource-based perspective

needs to explore the “black box of strategic assets” of resources and capabilities across facilities, branches, or divisions of corporations in order to gain a better understanding of their interrelationship and their contribution to competitive value. The strategic environmental assets examined in this study also extended recent work in an area not usually considered a source of competitive value. The strength of “green” assets in creating competitive advantage appears to depend on their degree of embeddedness in a firm’s value-creating competencies (e.g., manufacturing facility efficiency). In the future, researchers applying the resource-based framework to developing ecologically sustainable models of firm performance need to incorporate this influence.

**REFERENCES available upon request**

# AN EXPLANATION OF THE EFFECTS OF TRANSFORMATIONAL LEADERSHIP THROUGH THE SELF-CONCEPT OF MOTIVATION

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## ABSTRACT

*Traditional models of motivation have failed to explain the profound effects of transformational leaders on follower motivation. The theories rather, depended on explaining calculative, exchange based behavior. The self-concept based theory discussed will try to clarify the effects of such leaders on followers. The main concept behind the theory is that it links leader behavior and follower effects through follower self-concepts.*

## INTRODUCTION

**Self-Concept Validation and its motivational significance** Followers are motivated to behave in ways that are in line with their existing self-perceptions. Motivation is based on the self-concept when followers behave in a certain way in order to obtain positive feedback that will confirm or enhance their self-concept (Leonard et al, 1997). The self-concept is a source of motivation that is relatively stable but can be changed. Changes can be brought about by social interaction. Social interaction includes self-perceptions, ideal selves and social identities (Leonard et al, 1995). An individual's self-perception is made up of a set of self-cognitions regarding one's own traits, competencies and values. The ideal self on the other hand represents the set of traits, competencies and values that a person would wish to possess. Social identities evolve from social categories to which one perceives oneself as belonging (Leonard et al, 1995).

External validation of the self-concept is acquired by followers when they perform and exhibit extra role behavior aiming to obtain positive feedback from the leader in order to validate their skills and abilities and to prove their competency. The transformational leader is the source of validation. He is viewed as fair and equitable and followers have high respect and trust for him. Internal validation on the other hand, occurs when followers are motivated to engage in behaviors that reinforce their internal standards of values and beliefs and that later enables them to achieve greater competency (Barbuto et al, 2002).

**Transformational Leadership Concept** Transformational leadership as stated by Burns who claim the essence of the leader-follower relations was the interaction of persons with different levels of motivations and of power potential, including skill, in the pursuit of a common or at least joint purpose (Barbuto et al, 2002). The main difference between transformational and transactional leadership interaction is that transformational leadership does not entail an exchange process of rewards for performance. Transformational leadership focuses on deeply held personal value systems, more specifically referred to as end values (Humphreys, 2001). The term transformational comes from the idea that these end values cannot be negotiated. Followers are encouraged to express these end values; transformational leaders are then able to transform these values to enable a unity between all the followers hence the term "transformational". Transformational leaders gain acceptance of the vision and mission of the organization by eliminating self-interests and focusing on the collective interest of the organization. This is enabled by adopting the following behaviors:

- **Behaviors of Transformational Leaders** The Multifactor Leadership Questionnaire (MLQ) is used to identify behaviors underlying transformational and transactional leadership.

Motivation is obtained through self-concept validation when the transformational leader compliments success. (Scholl, 2001). Transformational leaders tend to concentrate on the gap between observed and expected performance. (Scholl, 2001). All these behaviors tend to increase motivation and make followers more adamant to reaching their desired performance levels.

**The Transformational Leadership Motivational Self-Concept Based Theory** Although there has been conclusive research regarding the effects of transformational leaders on follower attitudes, satisfaction and performance, the motivational effects of such leaders has still yet to be uncovered. The self-concept based theory discussed seeks to provide a motivational explanation for the effects of transformational leadership.

**Theory Assumptions** The theory assumes that followers' self-concept is of some motivational significance and centers its assumptions around this point. A model of the theory as developed by Shamir, House, and Arthur (1993) is defined in the following paragraphs

The theory is centered on four main sections: a) leader behaviors; b) effects on follower's self-concepts; c) further effects on followers; d) the motivational processes by which the leader behaviors produce the transformational effects. The theory therefore links the leader behaviors to their effects on followers' self-concepts, and the effects on self-concepts to further effects on followers.

**Leader Behavior** The theory proposes that the motivational processes that implicate the self-concept are activated by two classes of leader behavior; 1) role modeling, and 2) frame alignment. The specific leader behaviors used by transformational leaders can be clustered into three separate categories:

- Emphasizing the collective interests of followers (*emphasizing collective identities, reference to collective efficacy*)
- Displaying exemplary behavior (*expressing confidence in followers, reference to followers' worth and efficacy*)
- Emphasizing ideological behavior (providing ideological explanations, reference to history)

**Role Modeling** Transformational leaders publicize their values and beliefs and consistently behave according to these values and beliefs. This is associated with their high level of personal integrity. The leader is a symbol that is admired by followers and represents an identity that the follower strives after (Scholl, 2001).

Followers commitment to the vision and their personal identification with the leader depends on the credibility of the leader and the vision which is built by transformational leaders by articulating and communication why there is a need for the new vision and ways by which it will be accomplished (Javidan & Waldman, 2003).

**Frame Alignment** Transformational leaders link their values, beliefs, activities, goals and ideology with that of their followers. This frame alignment seeks to organize experience and guide action. They engage in communication to enhance frame alignment and move followers to action. They provide an image of the future, although not a clear one. (Shamir et al, 1993).

**The Self-Implicating Effects of Transformational Leadership** The theory suggests that transformational leaders motivate their followers through the use of five processes outlined below. These processes impact the self-concept of followers through exploiting the use of the motivational forces of self-worth, self-consistency and self-expression.

**Increasing the Intrinsic Valence of Effort** The transformational leader links organizational values to the morals of followers so followers believe that by making the effort to achieve the organizational goals, they are making a moral statement (Shamir et al, 1993). Transformational leaders tend to set an example as to what the cultural values of the organization are. They become the reference group for the followers. (Scholl, 2001). The leaders actions inside and outside the organization are consistent with the values inherent to the organization since a transformational leader is looked up on for his personality, leadership abilities and self-worth rather than his position

power. Most importantly, transformational leaders reward performance that is consistent with the values communicated. (Tan & Wee, 2002).

**Increasing Effort-Accomplishment Expectancies-** Transformational leaders have a high need for achievement. They set high goals for their followers and challenge them to achieve those goals (Daft, 2001). As a result, they enhance the followers' higher needs for self-esteem and self-actualization. By doing so, they enhance the followers' perceived self-efficacy (Shamir et al, 1993).

Jay Conger (1999) stated that charismatic leadership may depend in part on the dynamics of exclusion to ensure both follower commitment and high performance outcomes. In essence, the leader may use exclusion from an "inner circle" to stimulate followers to greater task-efforts and in turn higher performance levels.

According to the theory, self-worth is also enhanced when transformational leaders clarify and point out the relationship between efforts and important values. Self-efficacy is positively enhanced when self-worth is enhanced. Follower self-efficacy is increased when the leader provides a vision and expresses high expectations and confidence in the followers' ability to meet those expectations (Eden, 1992).

Another dimension of transformational leadership that is likely to increase effort-accomplishment expectancies is its emphasis on collective efficacy (Shamir et al, 1993). With transformational leadership, collective interests, (identity and efficacy beliefs), of followers improve as a result of the interactions between the followers within themselves and the leader. (Avolio & Gardner, 1998).

**Increasing the Intrinsic Valence of Goal Accomplishment-** Vision and mission approaches are inherent to the transformational leader. Transformational leaders tend to articulate a vision which is better than what the organization is at. Followers are involved in the development of the vision and the mission and thus they are motivated to exhibit extra role behavior to realize that vision. Action oriented towards achieving that vision is more meaningful to the follower when in line with the follower's self-concept (Scholl, 2001).

**Instilling Faith in a Better Future** The theory proposes that transformational leaders do not provide extrinsic rewards in return for the performance, rather they emphasize and instill values that make followers accept the attainment and striving towards the attainment of the organizational vision as intrinsic satisfaction.

**Creating Personal Commitment** Transformational leaders motivate followers to act out of a sense of commitment to the organization's mission, vision and goals (Carter, 1989). A distinguishing factor for transformational leaders is their ability to form a link between the vision and their followers' own personal challenges and goals (Javidan and Waldman, 2003). This in effect fosters personal commitment to the organization.

**Effects on Followers' Self-Concept** The theory proposes that the effect on the followers' self-concept emerges as a result of the processes and leader behaviors outlined above. The more leaders exhibit the behaviors outlined, the more followers will have a high salience of the collective identity in their self-concept, a sense of consistency between their self-concept and their actions on behalf of the leader and the collective, a high level of self-esteem and worth, a similarity between the self-concept and the perception of the leader and a high sense of collective efficacy.

Leaders indirectly prime different aspects of followers' *self-concepts* by increasing the salience of values. It has been proven that salient values influence the likelihood that particular *self-concepts* will be activated (Lord & Brown, 2001).

**Follower Attributes** The theory also takes into account other variables moderate the relationships between leader behaviors and effects on followers. The theory suggests that in order for a leader's message to have transformational effects then the message has to be congruent with the existing values and identities held by all followers. This distinguishes between followers and gives value to their self-identity.

**Organizational Factors** Organizational conditions under which transformational leadership is applicable is also outlined in the theory. The organizational task and its relation to dominant social values affects the translation of followers' values into the mission. The theory, also, suggests that transformational leadership is unlikely to foster under conditions which favor the use of extrinsic rewards and punishments. Transformational leadership is theorized to be more applicable to certain situations where high performance and achievement is encouraged and expected.

**Weaknesses and Drawbacks of the Theory** The theory is relatively new and lacks strong empirical evidence and support. An empirical study was conducted to test the effects of the theory on field military units and it was found that the self-concept theory didn't receive substantial support. The leader's emphasis on the group's collective identity was related to followers' trust in the leader, levels of follower identification with the leader, higher motivation, self-sacrificial behavior for the group, collective identity and group attachment. The behaviors that have an ideological emphasis and exemplary behaviors were unrelated or negatively correlated with follower perceptions of and attitude towards the leader and the collective (Shamir et al, 1998).

Another drawback identified is the failure for the theory to acknowledge the task design within the framework of the motivational effects. Task design as in structured or unstructured directly relates to the motivation of followers. The task structure may moderate the relationship between leader behavior and follower outcomes (Whittingham & Goodwin, 2001).

Additionally, the theory fails to address the issue of goal setting. Challenging goals impact the relationship between transformational leader behavior and follower performance. Goal level and follower self-efficacy mediate the effects of transformational leadership behavior on follower performance (Kirkpatrick & Locke, 1996).

**The Need for a Self-Concept Based Model for Motivation** There are four major reasons why self-concept based models are needed to explain motivational behavior in organizations as opposed to the traditional motivation models (Leonard et al, 1995).

First and foremost, self-concept based models are needed to explain non-calculative-based work behavior. The previous motivational theories assumed that behaviors of followers were contingent to the valences of the outcomes they expected such as in the case of expectancy theory. Equity theory is also calculative in the sense that followers calculate their input/outcome ratio and compare accordingly, and in the case that the ratio is unequal, inequity results. These are theories that people will be motivated to behave in ways that maximize their positive outcomes as opposed to their negative outcomes. However, motivated behavior can arise from other sources as well, such as from the self-concept.

Second, there is a need to account for internal sources of motivation. Motivation can be referred to as intrinsic or extrinsic. Leaders may use an intrinsic process to motivate followers when they appeal to the higher needs of followers, which are self-esteem and self-actualization needs. As a result, they derive intrinsic satisfaction from the work they perform. Motivated Behavior is encouraged when followers' needs and values are aligned with the organizational values and goals. A leader can encourage and persuade followers to believe in the goals, vision and values of the organization therefore supporting motivated behavior since followers work harder towards attaining goals they believe in. Motivation based on internalized values and pure moral involvement occurs. These intrinsic processes are not integrated in different motivational theories, therefore a theory based on the self-concept will address these issues.

Furthermore, there is a need to integrate dispositional and situational explanations of behaviors. There are differing views as to whether individual behavior is consistent across situations or contingent upon circumstances and situational factors. A self-concept based model can explain these behaviors whether they are consistent or variable across situations.

Finally, there is a need to integrate all the existing self-based theories. The existing self-based theories all contend that human beings have a need to maintain or enhance their self-concept.

However, these theories are highly disorganized and don't interact well with each other in terms of concepts and constructs which often overlap (Leonard et al, 1995).

### **CONCLUSION**

The lack of substantial support for the theory suggests that there is a need for more research to prove its validity. Although the theory has some weaknesses, it provides an adequate explanation of the motivational effects of transformational leaders through the self-concept. One of the most important aspects of the theory is its attempt to explain the strong role of collective identity in the leadership process which has been somewhat neglected in other theories. There is ample need for future research.





# PRODUCT GROWTH STRATEGIES OF THE MILES AND SNOW STRATEGIC GROUPS

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## ABSTRACT

*The paper presents an investigation of the product growth strategies employed among the Miles and Snow strategic groups. The study includes a sample of chief executive officers in the financial services sector, specifically credit unions. Three product growth options are available to the firms: (1) focusing on current services, (2) focusing on new services, or (3) focusing on both current services and new services. The statistics reveal that most credit unions are classified as either Defender or Analyzer firms, with few Reactors or Prospector firms. Also, more than half of the firms employ growth strategies emphasizing only current services. The authors find significant differences among the strategic groups on the product growth strategies utilized. Prospectors and Analyzers are more likely than expected to utilize both current services and new services in their product growth efforts. Conversely, Defenders and Reactors are more likely than expected to use only current services in product growth efforts.*

## INTRODUCTION

Business strategy has been discussed from many differing perspectives (c.f. Porter 1980, Miller 1987, Kotabe 1990). A common and useful conceptualization put forward by Miles and Snow (1978) focuses on a firm's strategic environmental adaptation or aggressiveness towards the market. Much research over the years has investigated differences among the four strategic types regarding a variety of internal factors, including innovation, management characteristics, organizational performance, and organizational design. The outlined Defenders, Analyzers, Reactors, and Prospector firms are suggested to be distinct in their actions, with each strategic group enacting consistent decisions and activities across a variety of organizational areas (c.f. Aragon-Sanchez et al 2005, Slater and Narver 1993, Doty et al 1993, Conant et al 1990, Shortell and Zajac 1990).

In particular, one main proposal of Miles and Snow (1978) is that the four strategic types vary according to their efforts at innovation. Prospector firms are expected to place the most emphasis on growth from innovation, with leadership or first-mover characteristics common in these firms. Alternatively, Reactor firms by definition are late followers, only acting or innovating when the competition or market demands it. Defender firms are suggested to focus more on efficiently serving a focused part of the market, rather than on innovation. They are more likely than Reactors to innovate, but these efforts will be highly focused. Finally, Analyzer firms, while not being first-movers, are oftentimes aggressive in following the lead of Prospectors with new products or into new markets.

The purpose of this study is to determine if the four strategic types emphasize similar or different product growth strategies during innovation efforts. Previous research has suggested that innovativeness generally follows from most to least in the following order: Prospectors, Analyzers, Defenders, then Reactors (Slater and Narver 1993, McDaniel and Kolari 1987). However, none of the previous empirical studies has specifically focused on the product growth strategies employed by the four types of firms. The author uses a sample of managers from credit unions to investigate this relationship.

## GROWTH AND STRATEGIC TYPES

Ansoff (1957) followed by Sheth and Morrison (1984) describe firm growth and revitalization strategies which integrate product and market factors. Combining the two taxonomies result in three general areas of potential strategic thrust regarding innovation efforts: (1) new or existing uses for the product, (2) new or existing products, and (3) new or existing markets. Ansoff (1957) presents four basic strategies: (1) market penetration, (2) market development, (3) product development, and (4) diversification, while Sheth and Morrison (1984) present nine strategies: (1) entrenchment, (2) switching intermediaries, (3) mandatory consumption, (4) new applications, (5) new situations, (6) going international, (7) broadening product horizons, (8) repositioning, and (9) redefining markets. Research has shown that the chosen product-market growth strategy does have a slight influence on firm performance (Pleshko and Souiden 2003).

The Miles and Snow (1978) typology of strategy types depicts a firm's orientation towards its market environment. The emphasis of this classification is on the implementation of strategies (Hambrick 1983). In fact, recent studies have confirmed that the long-term performance differences among firms in the financial services industry are more related to the implementation and control of strategies than to the type of strategy selected (Hatten et al 2004). Regardless, the typology is a viable classification in that it distinguishes between marketing strategies and the distinctive competencies of firms (McDaniel and Kolari 1987, Miles and Snow 1978, Snow and Hrebiniak 1980). The four strategy types are (1) Defenders, (2) Prospectors, (3) Analyzers, and (4) Reactors.

Defenders are firms engaging in little or no product/market development efforts. They tend to control secure niches within their industry. Thus, Defenders are expected to be conservative in product growth efforts, focusing on current products for growth. Prospectors are leaders in product/market development with desires to be first-movers whenever possible. They compete by taking advantage of new market and product opportunities. Prospectors are expected to implement the most aggressive product growth efforts, focusing not only on current products but also on new product areas. Analyzers are followers in product/market development. They change their tactics slowly and less often than prospectors. However, they can be aggressive towards innovation once they see opportunities. Thus, Analyzers are expected to be the second most aggressive strategic type towards product growth. Analyzers are expected to use current products for growth, but to also develop new products when a good opportunity arises. Finally, Reactors change tactics only when forced to by the market environment. Their strategic stance is one of passiveness and caution, rarely (never) taking the lead in producing change in an industry. Therefore, reactors are expected to be the most conservative firms toward product growth, focusing almost entirely on current products and then only after most others have already made the move into those areas. Previous studies generally confirm these expectations, suggesting that Prospectors exhibit the highest levels of innovativeness followed by Analyzers, then Defenders, and lastly by Reactor firms (Slater and Narver 1993, McDaniel and Kolari 1987).

## INDUSTRY/SAMPLE DESCRIPTION

A sample of chief executives from credit unions is taken in the financial services industry. Data for the study are gathered from a statewide survey in Florida of all the credit unions belonging to the Florida Credit Union League (FCUL). Membership in the FCUL represents nearly 90% of all Florida credit unions and includes 325 firms. A single mailing was directed to the president of each credit union, all of whom were asked by mail in advance to participate. A four-page questionnaire and a cover letter using a summary report as inducement were included in each mailing. Of those responding, 92% were presidents and 8% were marketing directors. This approach yielded 125 useable surveys, a 38.5% response rate. A Chi-squared test of the respondents

versus the sampling frame indicates that the responding credit unions are significantly different from the membership firms based on asset size (Chi-sq = 20.73, d.f = 7,  $p < .01$ ). Further analysis of the sample indicates that the smaller asset groups are under-represented. Thus, the results of the study should not be generalized to all credit unions, but may be indicative of medium to larger firms.

## MEASURES

Product growth strategy (PGROW) is actually service growth in this study and, as outlined by Ansoff (1957), focuses on either [1] existing services, [2] new services, or [3] both existing and new services. Respondents could check either of [1] we emphasize services presently offered by the firm, or [2] we emphasize services new to the firm, or they could also check both of the boxes, indicating they use both new and current services for growth. Those firms which did not respond to the question were counted as missing and deleted from the analysis. One hundred seventeen respondents answered the question with 54% (64/117) classified as focusing on existing services, 14% (17/117) classified as emphasizing new services, and 30% (36/117) classified as using both new and existing services in their efforts at growth.

Regarding the Miles & Snow strategy types (M&S), respondents are asked to check the box which best describes their firm's strategy. They could choose from four descriptions: [1] *Defenders*: we attempt to locate and maintain a secure niche in a relatively stable market environment. we try to protect our markets by offering high-quality, well-target services. we are not at the forefront of industry developments., [2] *Prospectors*: we typically concentrate on many diverse markets, which we periodically help to redefine. we value being first-in with new services and in new markets even when these efforts are not highly profitable initially. we respond rapidly to most new opportunities., [3] *Analyzers*: we attempt to maintain a stable and secure position in the market while at the same time moving quickly to follow new developments in our industry. we are seldom first-in with new services or in new markets, but are often second-in with better offerings., and [4] *Reactors*: we appear to have an inconsistent approach to our markets and services and are often indecisive. we are not aggressive in attacking new opportunities, nor do we act aggressively to defend our current markets. rather, we take action when we are forced to by outside forces such as the economy, competitors, or market pressures. One hundred and nineteen respondents answered the question with 38% being Defenders (45/119), 5% being Prospectors (6/119), 44% being Analyzers (53/119), and the remaining 13% being Reactors (15/119).

## ANALYSIS/RESULTS

A cross tabulation analysis is performed to determine if firms with different strategies, as classified by Miles & Snow, emphasize different types of product growth. One hundred and fourteen responding firms were included in this analysis, as they provided answers for both of the required questions. The cross tabulation is shown in Table 1 for strategy type versus product growth. As shown in the table, Prospector firms in the sample are the most aggressive, with all five of the firms using both current and new services for product growth efforts. On the other hand, Reactor firms are the least aggressive, with twelve out of fourteen firms using only current services for product growth. Defender firms are also conservative, as expected, with twenty-eight out of forty-two firms using only current services for product growth. Analyzers in the study are both conservative and aggressive, as might be expected. Only twenty-two out of fifty-three Analyzer firms used current services exclusively for growth, while the remaining thirty-one out of fifty-three included new services either alone or with current services.

The Chi-square statistic using Fisher's Exact Test supports a significant relationship ( $p=.000$ ) between product growth and strategic type. Closer examination reveals that Prospectors and Analyzer firms are more likely than expected to use both current and new products for growth, while

Defender and Reactor firms are more likely than expected to utilize only current products in their growth efforts. Thus, the statistics support the expectations outlined previously.

		PRODUCT GROWTH			
		Current	New	Both	Total
M&S	Defender	28	5	9	42
	Prospector	0	0	5	5
	Analyzer	22	9	22	53
	Reactor	2	0	14	16
	Total	62	16	36	114

Xsq= 22.84, p < .01

### DISCUSSION/LIMITATIONS

The paper presents an empirical investigation in the financial services industry to determine if firms using different strategies (Prospector, Analyzer, Defender, and Reactor) actually focus on different types of growth, as related to products/services. The statistics reveal that most firms in the study are conservative in nature regarding growth strategies, as more than half of the firms emphasize only current existing services for their growth. Additionally, few firms are considered to be aggressive (Prospectors) or without direction (Reactors) in relation to their markets. The majority of firms are either classified as Defenders or Analyzers.

The authors find that more aggressive firms, Prospectors, are likely to implement growth strategies utilizing both new and current services. Analyzers, while using current services or both current and new services for growth in equal amounts, are also more likely than expected to implement growth strategies emphasizing both current and new services. The least aggressive firms, Reactors, act in an opposing manner, focusing their growth efforts mostly on current services. The Defender firms, while utilizing all three growth options, also mostly emphasize current services for growth. These findings are in line with what might be predicted regarding the four strategic types of firms in the Miles and Snow typology – that the leaders are more aggressive or innovative while follower firms are less aggressive.

The study should not be generalized to other firms in the financial services industry outside of credit unions. In addition, the results may not truly apply to smaller-sized credit unions due to their under-representation in this study. Credit unions exist in an environment that is more protected than other financial institutions, such as banks, and therefore any generalizations might be suspect.

It is suggested that future studies investigate this relationship in banks, savings & loans, and other financial services industries. Future studies might also apply this framework to products industries in both the business-to-business and consumer products area to further test the findings. Any future studies might also look at other control variables, such as a firm's organizational structure or the level of competition in the industry. Data from an industry other than financial services may also present different findings.

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# THE VALUE OF HIGH TECHNOLOGY R7D ALLIANCES WITH COMPETING FIRMS

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## ABSTRACT

*Strategic alliances have been widely viewed as an effective and efficient alternative to acquisitions and internal development in dynamic markets. They provide immediate and temporary access to complementary resources needed to compete in markets demanding innovation. Companies are forming alliances with their customers, their suppliers and even their rivals.*

*Recent research has demonstrated the importance of commitment and trust among alliance partners as important to the success of an alliance. In this study, we argue that the cost of gaining commitment and developing trust is higher for alliances between direct competitors than for alliances between firms that do not compete directly. These transactions costs are higher because the risk of opportunism is particularly high in alliances with direct competitors. We propose that these increased transactions costs reduce the value created by alliances between direct competitors. We tested this hypothesis on a sample of 89 high technology firms participating in strategic alliances announced during the 1992-1996 period. Consistent with our hypothesis, alliances between non-competing firms were associated with significantly higher risk-adjusted returns to shareholders than those associated with alliances between direct competitors.*

## INTRODUCTION

Strategic alliances are strategic actions based on the cooperative activities of two or more otherwise independent firms. Strategic alliances allow a firm to acquire or use skills or capabilities it lacks while focusing its resources on its core skills and competencies. Increasingly turbulent and competitive business environments are forcing firms to become more efficient, innovative and flexible. Many firms have found that it is almost impossible to address these changing conditions through either acquisition or internal research and development alone. Thus, it is becoming increasingly important for firms to adopt more flexible structures such as strategic alliances as viable and cost-effective alternatives to internal research and development (Harrigan, 1987, 1988).

Companies are forming alliances with their customers, their suppliers and even their rivals (Doz and Hamel, 1998). Moreover, networks of companies are competing against other networks, changing the distribution of economic power in many industrial sectors and forcing more and more single companies, both large and small, into strategic alliances of their own (Gulati, 1995; Human and Provan, 1997). The reasons for this are clear. Strategic alliances have the potential to allow companies to create new products, reduce costs, penetrate additional markets, preempt competitors, generate more revenue, and, therefore, create value (Chan, Kensinger, Keown, and Martin, 1997; Contractor and Lorange, 1988). In large part this is true because alliances can serve as channels for the transfer of technology and enable other kinds of organizational learning (Anand and Khanna, 2000). They may be more powerful in strengthening a company's competitive position than traditional mergers and acquisitions, internal development or traditional arms length agreements.

Evidence suggests that an effectively structured and managed alliance can create more value for the firm than internal development efforts. For example, a recent study by Coopers and Lybrand



showed that firms involved in alliances had 11% higher revenue and a 20% higher growth rate than companies not engaged in alliance activity (Segil, 1998). Several studies have also identified significant, positive stock market reactions to the announcements of formation of strategic alliances (Anand and Khanna, 2000; Chan, Kensinger, Keown and Martin, 1997; Gleason, Mathur and Wiggins, 2003; McConnell and Nantel, 1985). These studies indicate that alliances have become important tools for a company in gaining a competitive edge.

Nevertheless, additional evidence indicates that not all alliances achieve their potential to create value for the partners with alliance failure rates remaining high. Furthermore, Das, Sen and Sengupta, (1998), for example, detected significant gains to shareholders for only a subset of the alliances they examined. Thus, because of the increased use and competitive importance of strategic alliances, it becomes important to identify those factors that may contribute to alliance success or failure.

### **STRATEGIC ALLIANCES, COMPETITIVE RELATIONSHIP, AND FIRM VALUE**

Transactions cost theory suggests that firms entering into alliances are potentially vulnerable to the opportunistic behaviors of their partners that impede achieving commitment (Reich and Mankin, 1986). These opportunistic actions may take the form of misrepresenting competences, limited commitment of resources to the alliance, holding specific investments by the partner hostage, or premature exit from the relationship. In response, transactions cost theorists propose that costly monitoring mechanisms and incentive systems originate as efficient responses to the problems of cooperation (Williamson, 1975). Thus, partners may seek to erect economic constraints to that opportunistic behavior with the safeguards against the opportunistic behavior varying according to the nature of the exchange. Specifically, economic controls such as asset specificity, hostages, and reciprocal investments may be used to reduce the potential for opportunism by locking-in partners to a strategic alliance with commitment being in their own economic interest.

Each of these controls involves costs to the alliance partners, reduces flexibility, and reduces the value otherwise created by the alliance. Several authors have noted that the risk of opportunism and the difficulty in gaining commitment may be greatest when alliance partners are competitors. Hamel (1991), for example, has suggested that the rivalry between direct competitors may be the greatest deterrent to the alignment of strategic interests and commitment to the relationship. Hamel and others (Lei and Slocum, 1992) suggest that direct competitors may have different motives, or intent, in forming the alliance. Direct competitors may be less interested in the longevity of the alliance and more interested in what can be learned and internalized from their partner. In this case, the partner may structure the relationship for ease of exit with less binding commitments of non-recoverable assets and less dependence. Since, the potential gain from opportunistic actions that undermine the position of a direct competitor provide greater benefit than opportunistic actions at the expense of a non-competing firm, the risk of opportunism in alliances between competitors may be higher.

In short, to gain full commitment and avoid free-riding by alliance partners, firms incur transactions costs. This paper argues that those transactions costs are higher when the alliance partner is a direct competitor than when it is not. The higher transactions costs of managing an alliance with a competitor reduce the gain shareholders would otherwise earn. Therefore, we hypothesize that:

*Hypothesis 1: Gains to shareholders of firms engaged in alliances with direct competitors will be lower than those of firms engaged in alliances with non-competitors.*

### **METHODS AND RESULTS**

To test the hypothesis described above we rely on the sample of high technology strategic alliances developed in Young-Ybarra and Wiersma (1999). Their sample included 162 high technology

strategic alliances announced during the 1992-1996 period. Inclusion in the sample required that at least one of the partners be U.S. based, that the alliance involved research in the area of information technology and, that the alliance was either a joint development agreement two or more firms working together on new technology or products or a joint research pact the joint undertaking of research projects with shared resources.

Of the 162 firms in their sample, 89 of the firms were publicly traded and had sufficient stock return data to be included in this study. Of the 89 firms, 49 were involved in alliances with direct competitors and 40 were involved in alliances with firms with which they did not directly compete.

We measured the stock market reaction to the strategic alliance announcement using the standard event study methodology (Dodd and Warner, 1983) used widely in strategic management and financial economics research. This methodology involves adjusting the observed returns to the firm on the days surrounding an event for the expected or "normal" returns of the firm. The resulting abnormal return (AR) is compounded throughout the event period to calculate the cumulative abnormal return (CAR), the estimate of the return to shareholders associated with the event. This technique is consistent with previous studies on strategic alliances (Anand and Khanna, 2000; Chan, Kensinger, Keown and Martin, 1997; Das, Sen and Sengupta, 1998; Gleason, Mathur and Wiggins, 2003; McConnell and Nantel, 1985).

Table 1 presents the Cumulative Abnormal Residuals (CARs) for the sample as a whole and for alliances among competitors and for non-competitor alliances separately. For the sample as a whole, CARs associated with the announcement of a strategic alliance averaged 1.11% ( $z=3.84$ ). For firms announcing alliances involving competitors, CARs averaged a statistically insignificant .16% ( $Z=.17$ ). Firms announcing alliances involving non-competitors earned statistically significant abnormal averaging 2.27% ( $z=5.55$ ). Consistent with our hypothesis, firms announcing alliances with non-competitors earned abnormal returns significantly greater than those announcing alliances with competitors (2.11%,  $T=2.94$ ).

<b>Table 1: A Comparison of Cumulative Abnormal Returns to Firms Announcing Alliances with Direct Competitors and those Announcing Alliances with Firms that are Not Direct Competitors.</b>					
	N	CAR	Z	% Positive	t <sup>a</sup>
All Firms	89	1.11%	3.84***	57.3%	1.40
Direct Competitor	49	.16%	.17	38.8%	-1.61
Alliances					
Non-Direct Competitors	40	2.27%	5.55***	80.0%	.76***
Alliances					
Sub-Group Difference:					
Student t	2.94***				
<sup>a</sup> $t = (P-.5)/[(PQ/N)^{1/2}]$ , where P= the percentage of CARs greater than 0,					
Q = 1-P, and N = the number of firms in the sample.					
* p<.1					
** p<.05					
*** p<.01					

## CONCLUSIONS

The results summarized above provide evidence that firms announcing strategic alliances with competitors earned significantly lower abnormal returns for shareholders than firms announcing alliances with firms with which they do not directly compete. These results suggest that the costs and benefits of strategic alliances perceived by investors depend on the relationship between the firms forming the alliance. We propose that this differential gain in value is explained in part by the greater risk of opportunism among competitors in an alliance than among non-competitor alliance partners. This risk of opportunism implies that greater investments in monitoring and bonding may be required to gain cooperation among competitors than firms not competing directly. As we extend this research project we will examine directly the impact of investments in monitoring and bonding on the market reaction to strategic alliances involving competitors and non-competitors.

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# AN EXAMINATION OF THE SELF-CONCEPT OF MANAGEMENT AND ITS RELATIONSHIP TO LEADERSHIP

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## ABSTRACT

*Theories about self management and individual advocates of self management claim that there are an astounding number of critical elements that must exist before effective self management can be obtained. Specifically, this paper addresses six key ingredients of self management: strengths and feedback analysis, performance and vision, values and goals, contribution, relationship responsibility and lastly, effectiveness.*

## INTRODUCTION

Today is an age of unlimited opportunity. If someone has ambition and intellect, they can soar to the top of their particular career, regardless of their starting point or position. What must be remembered is that with opportunity comes responsibility. Drucker (1999) says employees must act as their own chief executive officers; companies today are not managing their employees and their careers. He expresses his strong belief that it is up to the individual to carve out their own place in the working world. The individual must know when to change course and when to keep engaged and productive during a work life that may span some 50 years. To do those things competently, a deep understanding of self is required.

Manz (1990) argues that more emphasis needs to be placed on individual control and responsibility of people in organizations. Managers and professionals, who often have a great deal of responsibility, freedom and discretion in their jobs, have always had an acute need for effective self-management.

In agreement with Drucker, Goleman (2000) deems that a significant importance must be placed on recognizing emotions and their effects, as well as being aware and acting in accordance with strengths and limits, and keeping a strong sense of self-worth, values and capabilities.

Theories about self management and individual advocates of self management claim that there are an astounding number of critical elements that must exist before effective self management can be obtained. Specifically, this paper addresses six key ingredients of self management: strengths and feedback analysis, performance and vision, values and goals, contribution, relationship responsibility and lastly, effectiveness.

## STRENGTHS & FEEDBACK ANALYSIS

Individuals must concentrate on their strengths. They must place themselves in situations where personal strengths can produce positive performance and results. Drucker (2000) proclaims that most people think they know what they are good at, but they are usually wrong. More often, people know what they are not good at. The problem is that one cannot build performance on weaknesses; people are able to only perform from strengths (Drucker, 2000). One of the most effective ways to discover strengths is through feedback analysis. According to Drucker (2000), this feedback analysis is crucial in determining individual's strengths. Generally speaking, individuals normally interpret feedback negatively. Roberts (2005) and her colleagues state that it is a paradox of human psychology that while

people remember criticism, they respond to praise. The former makes them defensive and therefore unlikely to change, while the latter produces confidence and the desire to perform better (Roberts, *et. al.*, 2005). Individuals who recognize and play on strengths are most likely to reach or perform at their highest potential. Timm (1993) asserts that getting feedback, even if it comes from a tough critic, may be the most important way of receiving direction and control that assists in leading to better self management.

Drucker (2000) stresses several implications for action following from the feedback analysis. First, concentrate on strengths. Placement in situations where strengths can produce results is critical. Second, work on improving these strengths. The analysis will show the areas of improvement or arenas where new skills are needed. Additionally, the feedback will show where gaps in knowledge exist. Drucker (2000) makes a valid point when he says, "Mathematicians are born, but everyone can learn trigonometry." Third, look into areas in which intellectual arrogance can be causing ignorance and overcome it. "Many people – especially people with great expertise in one area – are contemptuous of knowledge in other areas or believe that being bright is a substitute for knowledge. Taking pride in such ignorance is self-defeating. Acquire skills and knowledge needed to fully realize strengths" (Drucker, 2000). In his 1999 article, Drucker uses an example to illustrate this ignorance by saying, "first rate engineers, for instance, take pride in not knowing anything about people. Human beings, they believe, are much too disorderly for the good engineering mind. Human resource professionals, by contrast, often pride themselves on the ignorance of elementary accounting or quantitative methods altogether."

Since every individual changes over time, physically, mentally, and emotionally, new data becomes available and new circumstances emerge. Levinson (2005) stresses that "rigidly sticking to old positions can keep one from seeing and making changes that might be beneficial."

People should use the feedback analysis to determine their strengths and the situations in which they can enact these strengths for desired performance and results. Wasting effort on improving areas of low competence is not suggested. "Energy resources and time should go instead to improving first rate performance to excellence" (Drucker, 2000). In addition to recognizing strengths and how to utilize them effectively in certain situations, Brigham (2000) recommends using feedback analysis to recognize bad habits and find ways to remedy them in order to make the most of the particular circumstances. Drucker (1999) emphasizes the importance of knowing strengths but more so on performance and the different ways one performs and the individual's ability to create a vision.

## PERFORMANCE & VISION

Asking the question how one best performs is essential to do, to understand and to embrace. Drucker (1999) says that few people actually know how they get things done. Performance style is said to be formed long before an individual enters the workplace. How a person performs is a given, the same as what a person is good at or not good at is also a given. Since performance is linked to personality, the style can be modified but not fully changed. A few common personality traits typically are indicators of how a person will perform.

According to Drucker (1999) the first thing an individual needs to know is whether he or she is a listener or a reader. Most people generally tend to be one or the other but very few people are both readers and listeners. It is very unlikely that listeners can be made into effective readers and vice versa.

Understanding how one learns is another key component to effective performance. Various styles of learning include learning by writing, learning by talking or hearing, learning by listening and learning by reading, to name a few. Drucker (1999) claims that not everyone learns in the same ways and many do not learn in the ways they are forced to. This conflict in learning and teaching styles is thought to be a major impact of poor student performance in many cases.

"Am I a reader or a listener? And how do I learn? Are the first questions to ask. But they are by no means the only ones to ask. To manage yourself effectively, you also have to ask, do I work well with people, or am I a loner? And if you do work well with people, you must then ask, in what

relationship” (Drucker, 1999)? Many individuals work best in group situations involving interaction with other individuals. For example, many individuals are best suited for roles as a mentors or coaches. Others, perhaps if their learning styles classify them as loners, work best without the involvement of others.

Deciding if you are more effective or comfortable as a decision maker and/or leader or an advisor and/or subordinate is also very important in determining in what role you can best perform. Drucker (1999) gives the example of the number two man (the man directly under the CEO or President, second in command) in corporate America. This person often fails when promoted to the number one position. This is largely because of the individual’s performance style. Many number two men are extremely effective and achieve great things as the number two man because they are better off being advisors as opposed to the decision maker. He or she knows what decision should be made but cannot accept the responsibility of actually making it (Drucker, 1999).

It is recommended that one not try to change him or herself especially when it comes to performance styles. The likelihood of success is not high. Accepting and working hard on improving upon the way one performs is a better solution. One of the ways to improve upon performance style is to create a vision, not only for yourself but for others in which you may work with.

Lewis (1998) says, “The successful vision is a dream that inspires the individual as well as the employees and gives each of them something to strive for.” Bennis (1989) cited in Melendez (1996) stated, “on the assumption that leaders are people who are able to express themselves fully... They also know what they want, why they want it, and how to communicate what they want to others, in order to gain their cooperation and support; they have a vision.” Two key components of effective self management and leadership are vision and inspiration. Everyone who is a leader needs to know how to create a vision, or guiding purpose, that provides direction toward a desired outcome (Segil, 1999). According to Drucker (1999), a successful self manager relies on skills, understanding of self in terms of performance styles and learning styles, the ability to articulate a vision, and knowledge to contribute practically and successfully to their work. Every self manager is also required to operate under a personal and professional value system to achieve success (Drucker, 2003).

## **VALUES & GOALS**

Weiss (1999) contests that everyone has a value system and individuals move toward things that they valued. An understanding of personal value systems is critical to the development of self management. “Values are crucial to personal excellence. Personal effectiveness and balance requires individuals to hold a set of clear personal values. Without values, self management becomes little more than choosing from an array of equally worthy (or unworthy) activities” (Weiss, 1999).

Levinson (2005) lists three common personal/workplace values that individuals place priority upon. Self-identification is the first common work value or priority. Many people need to feel as though the work they are doing on the job is meaningful, inspiring, as well as fitting or right for them. Money seems to be an obvious value in terms of what it allows the individual to do or feel. Another value recognized by Levinson (2005) is job security. There is a significantly larger amount of individuals that hold office jobs as opposed to independent entrepreneurs. Individuals who value job security want tenured positions.

The quality and depth of self leadership is reflected in ones values and goals, these must both be clear because they reveal who the individuals are as leaders (Lieder, 1996). Working from a clear sense of personal purpose coupled with an awareness of contribution creates an environment for success.

## CONTRIBUTION

“Throughout history, few people had any choices. The task was imposed on them either by nature or by a master. In large measure, so was the way in which they were supposed to perform the task. But to start out with the question “What should I contribute?” gives freedom. It gives freedom because it gives responsibility” (Drucker, 1999).

According to Drucker (1996) thinking about what an individual can contribute is basically looking for unused potential in the job. Individuals who do not think in terms of their contribution are not only likely to aim too low, but likely to aim at the wrong things or areas within their job. Several individuals see their contribution too narrowly and do not credit themselves enough with the contribution they are currently making. attests that to answer the question of contribution, the individual must consider three distinct elements: (1) What does the situation require?, (2) Given the individual’s strengths, their performance style, and value system, how can the greatest contribution be made in order to achieve goals and perform? (3) What results have to be achieved to make a difference? These questions lead to “action conclusions” which encompass what to do, where to start, how to start, and what goals and deadlines should be set To effectively contribute one must take responsibility for his or her relationships. (Drucker, 1999).

## RELATIONSHIP RESPONSIBILITY

In a typical work environment, individuals are most effective when working and interacting with others. Drucker (1999) says that whether people are a part of a group or independent, managing oneself requires assuming relationship responsibility. He reveals to two key components of taking responsibility for relationships. The first part of this responsibility is to be accepting that every individual is their own person. No one person is identical to another, especially in terms of learning styles, performance styles, values, and importantly, their strengths will be different too. To be most effective when working with these people who have different strengths and styles, one must be understanding and patient but imperatively, get to know the strengths and styles of each of these people so that conflicts can be minimized and performance can be maximized.

In accordance with Drucker, Levinson (2005) gives a couple ideas and rules that when followed or at least considered can help improve ones performance in relationship settings. Qualifying responses is the first element. What this means is when one expresses their opinion by using the phrase “so far as I know” it eliminates speaking with ultimate authority (Levinson, 2005). Secondly, being a good listener will take one far. “Using these skills can facilitate accurate communications and improve relationships” (Levinson, 2005). Taking genuine relationship responsibility will not only improve the individual’s self management skills, but the relationships that the individual has with others will also improve and advance. With improved self management skills and enhanced relationships the individual is on the right track to effectiveness.

## EFFECTIVENESS

People can always manage themselves. “Indeed, executives who do not manage themselves for effectiveness cannot possibly expect to manage their associates and subordinates. Management is largely by example. Executives who do not know how to manage themselves effectively in their own jobs and work set the wrong example” (Drucker, 1996). They need to be very aware of their strengths, values, performance styles, learning styles, and efficiently manage and take responsibility for their relationships. When this self attentiveness and composure is displayed in the manager or executive and projected outward to subordinates, task outcomes and the steps that are taken to produce these outcomes seem much smoother and require less effort.



Drucker (1996) clearly states, “To be reasonably effective is not enough for the individual to be intelligent, to work hard or to be knowledgeable. Effectiveness is what executives are being paid for, whether they work as managers who are responsible for the performance of others as well as their own, or as individual professional contributors responsible for their own performance only.”

The following two statements must become habits and routine to become an effective and self managed executive (Drucker, 1996):

- Effective executives focus on outward contribution. They gear their efforts toward results rather than toward work. They start out with the question, “What is my contribution?” rather than with the work to be done, let alone with its techniques and tools.
- Effective executives build on strengths, their own strengths, the strengths of their superiors, colleagues and subordinates. They do not build on weaknesses. They do not start out with things they cannot do.

Effective management starts with managing oneself. Unless individuals can create order within themselves, they will be unable to organize and lead others.

### **CONCLUSION**

Self management, when spelled out, and the benefits detailed, it is a concept that seems so obvious and necessary. Drucker (1999) explains, “Managing oneself is a revolution in human affairs. It requires new and unprecedented things from the individual. For in effect it demands that each individual think and behave as a chief executive officer.” As society and the business world change rapidly, as well as the emergence of leaders and leadership roles become more available, self management is a task that many individuals need to embrace and conquer before stepping into this new world or new role. Baillie (2004) states, “Understanding oneself and the impact of others is an essential step to maximizing personal leadership and management skills. Delving into personality traits, passions, values, drivers and motivators can help build strengths and compensate for weaknesses, make better business decisions and ultimately become a better leader. Self management is a life long journey.”

Until one can truly realize and appreciate their strengths and values, understand and act upon their learning and performance styles, be conscious of their contribution, assume relationship responsibility and make the necessary changes to create effectiveness, these components of self management will never work as a fully functioning circuit like they can and should.