Strategic Management Journal, Vol. 18:2, 159–167 (1997)

RESEARCH NOTES AND COMMUNICATIONS

UNDERSTANDING THE DIFFERENCES IN KOREAN AND U.S. EXECUTIVES' STRATEGIC ORIENTATIONS

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Competitive positioning in a global market requires an understanding of the decision processes and behavioral attributes of executives from different countries. These attributes reflect the executives' cultural background, the national policies under which they have worked, and their home country's level of economic development (institutional context). The current research compared strategic decision models of U.S. and Korean executives and the results suggest that criteria employed by the executives from the two countries differ. Differences in institutional context between Korea and the U.S.A. were reflected in the weightings of objective criteria used by the executives. Korean executives emphasized industry attractiveness, sales and market share (because of policies that encourage growth) and U.S. executives emphasized projected demand, discounted cash flow and ROI (because of policies and institutions that focus on profitability). The results suggest the importance of understanding the strategic orientations of international competitors, partners in international strategic alliances and managers of international subsidiaries or divisions. © 1997 by John Wiley & Sons, Ltd.

Competitive pressure by companies from newly industrialized countries (NIC) such as South Korea, Taiwan, Hong Kong, Singapore, Mexico, and Brazil is becoming more prominent. There are important differences in strategic orientations of these NIC companies that can be traced to their unique national heritage, differing ideologies, and distinct public policies and institutions (e.g., Kim, 1992; Lodge and Vogel, 1987). Globally competitive companies from the more industrialized nations must be sensitive to these strategic orientations, if they are to compete effectively, form alliances with companies from these countries, or plan to establish wholly owned subsidiaries in these countries (Hitt *et al.*, 1995).

Hamel and Prahalad (1989) argue strongly that because of changes in the global marketplace, it is imperative that companies go beyond traditional competitor analyses to understand competitors' strategic intent or their basic frameworks for developing competitive positions. An understanding of strategic intent requires an evaluation of the strategic orientations of top executives responsible for competitive positioning of the firm.

Herein, we consider how differences (similarities) in executives' strategic orientations arise from differences (similarities) in their home countries. In particular, we examine the effects of cultural, national, and economic differences on criteria employed by South Korean (Korean) and

Key words: strategic orientations; Korea; decision making; institutional context

CCC 0143–2095/97/020159–09

Received 29 June 1994
Final revision received 15 May 1996

U.S. executives in making the same strategic decision. While U.S. firms have been major players in world markets for some time, Korean companies are growing in importance. Much past research has focused on Japan, but little has examined other Pacific Asian countries, such as Korea. A more complete understanding of the differences in strategic orientations of executives from the U.S. and Korea is, thus, a worthy goal.

CONCEPTUAL FRAMEWORK

Firms are embedded in a larger institutional context that serves as a powerful influence on strategic decisions. Over time, executives develop cognitive models to interpret and process the complex set of information from the institutional context. These cognitive models or strategic orientations are used to integrate pieces of information into a single judgment during decision making (Hitt and Middlemist, 1979). Thus, the judgments of top executives reflect not only the available objective information, but also the executives' strategic orientations (Calori, Johnson, and Sarnin, 1994; Hitt and Tyler, 1991).

Cultural heritage has a strong effect on executives' strategic orientations (e.g., Chung and Lee, 1989; Lodge and Vogel, 1987). Laurent (1986) found that managerial assumptions are strongly shaped by national cultures and are insensitive to the more transient culture of organizations. Gupta and Govindarajan (1991) argued that culture may affect the manner in which executives manage international subsidiaries, as well as their strategic choices regarding how to enter and operate in international markets. In effect, managers import cultural norms and values into organizations through their strategic orientations and practices.

However, managerial practices are as much a function of environmental forces as they are of cultural attributes (Chung and Lee, 1989). The powerful influences of national policies and institutions on national and company economic growth and development have been pronounced over the last 20 years (Deyo, 1987; Lodge and Vogel, 1987). Because executives' strategic orientations have developed over time and are embedded within a specific economic and political context, their decisions should reflect the constraints of this context (Deyo, 1987; Scott and Lodge, 1985). These arguments suggest that executives' strategic orientations will be affected by their cultural heritage, national policies and institutions. It follows, therefore, that executives from different countries will exhibit differences in their use of objective information in making decisions.

The Korean cultural heritage, government policies and level of industrialization differ considerably from those of the U.S.A. Korean culture is strongly influenced by Confucian ideology. Furthermore, in an attempt to promote more economic development, the Korean government has tightly controlled industrial development through substantive industrial policies and management of capital distribution in the country. Alternatively, the U.S.A. has a cultural heritage based on 'rugged individualism' and belief in the free market. With these beliefs and a high level of economic development, the U.S. government has had little incentive to develop a national industrial policy. Given these differences in cultural heritage, national policies, institutions, and levels of industrialization, we can expect U.S. and Korean executives to evaluate objective information differently when making strategic decisions.

> *Hypothesis 1: Criteria used in strategic decisions vary by an executive's home country (U.S. vs. Korea).*

Korean and U.S. organizations exist in institutional contexts with very different values and norms. These differences are reflected in the strategic orientations of executives from these two countries. Korean communitarianism is largely the result of the Confucian philosophy and has dominated Korean thought and philosophy (Kim, 1992). Other attributes of the Korean ideology that have affected its development are a preference for hierarchical order, authoritarianism, preference for formality, low information sharing and self-control, and less emphasis on rights than on duty (Chung and Lee, 1989; Yoo and Lee, 1987). While communitarianism is characteristic of most Asian countries, Korea's approach differs from that in Japan and China. In Korea, the focus is on *inhwa* or harmony based on respect of hierarchical relationships and obedience to authority. Alternatively, the approach in China is focused on *guanxi* or personal relationships and in Japan on *wa* or group harmony and social cohesion (Alston, 1989).

Following the Korean War (1950–53), Korea's

leadership established an 'Industrial Policy' to select strategic industries for import substitition and export promotion and created the 'Economic Planning Board' (EPB). The government used its control of the country's banking system and credit (Yoo and Lee, 1987) to guide big Chaebols into the industries it wanted to develop. The government's efforts to establish sound economic planning, and the private business sector's response to strategic industrial initiatives to stimulate interest in attractive industries, led to firms diversifying into specific industries to receive preferential allotment of foreign aid and grants, preferential loans and financing, and tax exemptions or deductions (Chung and Lee, 1989; Yoo and Lee, 1987).

In the last three decades, the Korean government adopted a growth export oriented policy (Kim, 1992). The primary goal of this policy was to increase total sales volume rather than profitability (Yoo and Lee, 1987). As a result, the predominant goal of Korean Chaebols was growth (Lee, Yoo, and Lee, 1991). Because company activities are mostly financed through debt provided by government controlled banks more concerned with long-term growth than profit maximization, there has been little pressure to increase profits for shareholders (Chung and Lee, 1989). The concentration of ownership in Korean firms encourages a long-term orientation by executives and thus more emphasis on market share and sales (growth). The arguments suggest that Korean executives will emphasize industry attractiveness and growth but place less emphasis on profitability in their strategic decisions.

Unlike Korea, the U.S.A. has not adopted policies that support a national economic development strategy. The U.S. economic policies rely, instead, on an elaborate system of legal rights and obligations that are enforced by individuals, due to a mistrust of government. There have been few attempts by the U.S. government to foster particular industries. Rather, government is expected to 'assure that the broader public interest is not sacrificed in pursuit of private entrepreneurial goals' (Wolff, 1985: 303). Alternatively, Lodge and Crum argued that many of the past U.S. 'policies have deliberately favored short-term consumption over long-term investment ...' (1985: 480).

Ellsworth (1985) argued that U.S. firms emphasize maximization of shareholder value over other corporate goals. The emphasis of profit maximization over other goals in the U.S.A. is a reflection of the strong equity market dominated by stockholders (Chung and Lee, 1989; Jensen, 1993). This creates a capital structure and stakeholder mix that reinforces the disparity in corporate goals and ROI objectives between U.S. firms and their foreign rivals (Ellsworth, 1985).

U.S. firms' activities have been largely the result of entrepreneurial efforts, unencumbered by government involvement but limited by an advanced market system (Ellsworth, 1985). Executives have, therefore, within the limits of U.S. capital institutions, been free to follow market demand and to evaluate the merits of opportunities (e.g., acquisitions) based on their attractiveness (e.g., of industry) and returns or profitability (i.e., ROI, stock price, discounted cash flow, projected demand). Growth without returns has not been rewarded by the market. These arguments suggest the following hypotheses.

Hypothesis 2a: Both Korean and U.S. executives emphasize industry attractiveness when making strategic decisions.

Hypothesis 2b: Korean executives place more emphasis on objective criteria associated with growth (i.e., sales and market share) when making strategic decisions, than do U.S. executives.

Hypothesis 2c: U.S. executives place more emphasis on objective criteria that focus on returns or profitability (i.e., ROI, stock price, discounted cash flow, and projected demand) when making strategic decisions, than do Korean executives.

While Korea's stage of industrialization remains behind that of the U.S.A and other Western countries, it has experienced rapid economic development. Much of Korea's economic growth and prosperity can be directly attributable to government efforts (Yoo and Lee, 1987). The Korean government's mandated emphasis on growth encouraged exports and manufacturing excellence but also depended on technological capabilities. Creativity and risk taking are values frequently emphasized in Korean firms. In addition, government policies have produced a revolution of

government supported science and technology initiatives, stimulating an increase in the number of private R&D institutes and consortia (Lee, 1988).

The U.S. government has not had a coordinated technology policy. Mowery and Rosenberg (1993) reported that federal research funding has been motivated largely by national security concerns rather than domestic economic payoffs. In fact, large U.S. firms have significantly reduced their investments in R&D in recent years and shifted from basic research to that with a quick payoff. Furthermore, Jensen (1993) argues that many U.S. firms have failed to gain appropriate returns from their R&D investments. As a result, Hitt, Hoskisson, and Ireland (1990) argue that many U.S. firms use acquisitions as a substitute for innovation.

Although the U.S.A. has the world's foremost capital market, U.S. industry has been handicapped by the exceptionally high cost of capital. The high cost of capital limited companies' ability to maintain the manufacturing and R&D investment necessary to keep pace with competitors (Scott and Lodge, 1985). Thus, high costs of capital cause U.S. managers, committed to maximization of stockholders wealth, to discount the long-term investments in manufacturing and R&D.

The individualistic heritage of U.S. executives suggests that they will be sensitive to the managerial capabilities when making strategic decisions. The value placed by U.S. society on executives' managerial capabilities is reflected in the salaries they receive and the extent to which they are credited with firm performance (e.g., Iacocca at Chrysler). Although some opposition exists, the belief in the neoclassical invisible hand and an open market continue to support these sometimes extreme pay differentials. Another significant reason U.S. executives are attentive to managerial capabilities is the active market for corporate control (takeovers). Corporate managements not perceived to be maximizing stockholders' long-term wealth are subject to takeover by those (e.g., corporate raiders) believed to be more competent (Jensen, 1993). Thus, we propose the following hypotheses.

Hypothesis 3a: Korean executives place more emphasis on objective criteria associated with manufacturing and R&D capabilities when making strategic decisions, than do U.S. executives.

Hypothesis 3b: U.S. executives place more emphasis on objective criteria representing managerial capabilities when making strategic decisions, than do Korean executives.

METHOD

Sample

Data were obtained through a survey instrument completed by 69 U.S. and 130 Korean top executives. The U.S. sample represented 122 executives chosen randomly from a list of 950 top executives in the southwest U.S.A. Each executive was contacted by telephone and asked to participate. The 69 responses returned represent a 57 percent response rate. The Korean sample of 200 executives was chosen in collaboration with top executives in Korea. These executives then contacted the selected top executives in other Korean firms, and asked them to participate. The 130 responses represented a response rate of 65 percent. Four of the U.S. responses and 10 of the Korean responses had missing data on at least one of the instruments for a usable sample of 65 and 120 respectively.

The respondents' positions ranged from vice president to CEO, with the mean position one level below the CEO (e.g., President and COO) for both the U.S. and Korean respondents. Furthermore, all respondents were involved in the strategic decision making process in their firms. The firms represented a variety of industries (20 and 18 different 2-digit SIC codes for the U.S. and Korean samples respectively) including manufacturing (consumer goods, producer goods, capital goods) and services (e.g., financial and professional services).

Instrument

The instrument contained four parts including 30 cases with potential acquisition candidates described through 15 objective criteria and a set of questions regarding individual respondent and firm characteristics (demographics). Each set of instruments sent to executives were randomly ordered to control for potential order effects. The

instrument was carefully translated into the Korean language for Korean executives. To ensure comparability of English and Korean versions, the Korean instrument was retranslated into English by independent sources.

The study examines executives' strategic decision making. The type of decision chosen for examination involved the evaluation of firms targeted for acquisition. The objective criteria on which to evaluate target firms were developed through survey of the literature and recommendations from academic 'experts'. Based on the 'experts'' recommendations and the literature review, 15 objective criteria were identified. The goal of the development process was to identify all potentially important criteria while maintaining a 'manageable' list for case development. The target firm criteria chosen are listed in Table 1. These objective criteria were used to develop 30 cases on target firms.

The procedure known as policy capturing was used to obtain and analyze the data. Policy capturing involves analysis of actual decisions by developing a quantitative decision model that incorporates the decision criteria used and their respective weights assigned by an individual. A decision-maker's policy is inferred through analysis of his or her ratings. Hitt and Middlemist (1979) conducted post hoc interviews with superiors of the managers in their study, revealing that the policy-capturing models accurately represented these managers' actual decision-making behavior, providing support for the external validity of the procedure. For this study, 30 cases were constructed by randomly varying the level of each of the 15 target characteristics (criteria) on a scale of 1 (low) to 5 (high) across the cases. The random assignment of criteria levels controlled for potential collinearity among the independent variables.

Executives were asked to examine each case describing a target firm on the basis of the 15 criteria, rate the attractiveness of the target firm as an acquisition candidate (on a 1–7 scale) and rate the probability that this firm would be acquired (on a 1–7 scale). This combined scale represented the dependent variable with a coefficient alpha of 0.90.

A pilot study was conducted to evaluate the appropriateness of the instruments. Executives from several countries (e.g., U.S., Asian, Middle Eastern and European) involved in a 4-week

Table 1. Comparison of regression models for U.S. and Korean executives

	Standardized regression coefficients[a]	
Decision criteria	U.S. executives	Korean executives
Synergy	0.127**	0.023
Diversification	0.076**	0.042*
Market share	0.070**	0.168**
Sales	0.106**	0.206**
ROI	0.186**	0.054**
Stock price	–0.080**	0.058**
Discounted cash flow	0.221**	0.059**
Acquisition price	–0.135**	0.029
Projected new products	0.137**	0.145**
Projected demand	0.253**	0.103**
Management talent	0.140**	0.140**
Marketing ability	0.078**	0.139**
Manufacturing ability	0.064**	0.163**
R&D ability	0.116**	0.165**
Industry attractiveness	0.141**	0.213**
	$R^2 = 0.319,\ F = 61.90$**	$R^2 = 0.331,\ F = 118.38$**

*$p < 0.05$; **$p < 0.01$

[a]The regression coefficients for each criterion were tested to see if they were statistically different using the Chow test. The results showed that the differences in the regression coefficients for all 15 criteria between the U.S. and Korean models were statistically significant at $p < 0.05$.

development program for top executives participated in the pilot study. The exercise suggested that the cases were viable and criteria used were inclusive of those felt important by the executives.

RESULTS

The first hypothesis suggested that criteria used in strategic decisions would vary by an executive's home country. It was tested using moderated regression analysis with country as a moderator. Country was coded as a dummy variable (0 = U.S., 1 = Korean). The results of this analysis show the change in R^2 from the restricted to the full model is statistically significant ($\Delta R^2 = 0.048$, $f = 26.97$, $p < 0.01$). These results suggest that U.S. and Korean strategic decision models differ.

To test the rest of the hypothesis, separate regression models were developed for the U.S. and Korean executives respectively. Results of these analyses are presented in Table 1. As shown, all 15 decision criteria were statistically significant predictors in the U.S. model and 13 decision criteria were statistically significant predictors in the Korean model. Differences between the regression coefficients for each criterion in the two models were tested using the Chow test. The differences in the coefficients for all 15 criteria between the two models were statistically significant. We then examined the standardized regression coefficients to test Hypotheses 2a to 3b. The top five criteria used in the Korean executive's decisions were (in order of magnitude): industry attractiveness, sales, market share, R&D ability, and manufacturing ability. The top five criteria used in the U.S. executives' decisions were (in order of magnitude): projected demand, discounted cash flow, ROI, industry attractiveness and management talent.

Hypothesis 2a received support. While both Korean and U.S. executives emphasized industry attractiveness, the Korean executives placed stronger weight on this criterion than did U.S. executives. Sales and market share were the second and third most important criteria used by Korean executives and statistically different from the coefficients of these criteria in the U.S. executive models. Furthermore, the coefficients for sales and market share ranked 10 and 14 (out of 15) in the U.S. executives' model. Hypothesis 2b received strong support. Hypothesis 2c received fairly strong support, with projected demand, discounted cash flow and ROI being the top three criteria in the U.S. executives' model and statistically different from the coefficients for these criteria in the Korean executives' model. Projected demand was the ninth strongest predictor in the Korean executives' model, followed in order by discounted cash flow, stock price and ROI. However, in the U.S. executives' model, stock price was less important than several other criteria (ranked 10). The results provide support for Hypothesis 3a. In addition to the statistical differences, manufacturing and R&D abilities were among the top five criteria in the Korean executives' models but were 9 and 15 respectively in the U.S. executives' model. While Hypothesis 3b received statistical support (Korean and U.S. coefficients for management abilities were statistically different and the criterion ranked higher in the U.S. model), the difference is nominal.

DISCUSSION

The 21st century has been referred to as the 'century of Pacific Asia' (Tung, 1994). In addition to Japan, other nations such as South Korea, Taiwan and Singapore are developing economic power. In fact, Korea has been identified as 'Asia's next giant' (Amsden, 1989). Korea, although a newly industrialized country, is rapidly becoming a major economic force in global markets. As a result, understanding the strategic orientations of executives in major Korean companies is of increasing importance in the competitive landscape.

Our findings showed marked differences in U.S. and Korean strategic orientations. While U.S. executives placed strong importance on discounted cash flow, ROI, and projected demand, Korean executives placed high importance on sales and market share. These differences reflect the U.S. orientation emphasizing returns and increasing shareholder value, as well as a more short-term return orientation. Whereas, the Korean orientations reflect heavy emphases on growth and expansion strongly promoted by the Korean government.

The importance of sales and market share are also exemplified by recent strategic moves of

Samsung. Year end sales estimates for 1992 showed Hyundai to be the largest company in Korea. Given that sales and market share are traditional measures of success in South Korea, Samsung executives were upset at being number two. They developed plans for a bold move into passenger car production to regain the top spot in overall sales. Given that South Korea has five other major automakers and there is significant competition in the global auto market, this is, indeed, a risky strategic move. In 1995 alone, Samsung invested approximately $9.92 billion in expansion opportunities (Glain, 1995). Thus, Samsung's strategic orientation of expansion and emphasis on sales and market share clearly match the government's policy and primary goal of increasing total sales volume (as opposed to profitability) (Lee *et al.,* 1991).

A superficial review of Korean business practices reveals a number of parallels with Japan, such as an emphasis on exporting, reliance on joint ventures to acquire foreign technology, and a strategy of offering low-cost products followed by gradual increases in quality and price (Kearney, 1991). However, Korean executives' strategic orientations also reveal some unique patterns. One difference beween Korean and Japanese strategic orientations is in their primary goals. While several have cited the Japanese emphasis on capturing market share, more recent evaluations strongly suggest the value placed on profitability. A study of value profiles showed Japanese managers place strong emphasis on productivity, profit maximization, and organizational stability, (Davis and Rasool, 1988). In fact, recent accounts suggest that Japan's profit orientation is revolutionary and represents a change from past practices (Woronoff, 1993).

Another difference between the strategic orientations of many Japanese firms and those in Korea relates to diversification. Korean firms focus on expansion through unrelated diversification. While there are some large conglomerate type firms in Japan, exemplified by the Zaibatsu, many large firms in Japan concentrate on a limited range of business activities to maintain homogeneity of skills and resources. They are able to do so by using subcontractors and forming vertical or horizontal keiretsus (Whitley, 1990).

There is increasing participation of firms from multiple countries in global markets and a growing number of international strategic alliances. Understanding the strategic orientation of these global competitors and international alliance partners may be critical to a firm's success in these ventures. Outside of the U.S.A. and Japan, much of the research on managerial orientation has focused on European countries. Calori (1994) suggests there are some similarities and also some distinct differences among European managers from different home countries. Furthermore, Calori, Lubatkin, and Very (1994) and Calori (1994) found U.S. managers exercise higher formal control over resources (human and financial) than do French managers. French managers take a broader stakeholder approach contrasted to U.S. managers' heavy emphasis on stockholders.

Pearce (1991) argues that many managers from capitalistic countries are forming joint ventures with enterprises in formerly Communist countries but have only a superficial understanding of the strategic orientations of their venture partner managers. She suggests that Hungary has progressed further toward a market driven orientation than other Eastern bloc countries because the process was started much sooner in this country. This is exemplified in the work of Markoczy (1995). Markoczy (1995) found Hungarian and U.S. (advanced market-driven economy) managers to have remarkably similar beliefs. She found one notable difference: U.S. managers placed importance on short-term (annual) profitability, whereas Hungarian managers emphasized long-term profitability. This conclusion regarding U.S. managers parallels our results.

The results of this study and comparison with other research suggest the importance of understanding strategic orientations in multiple regions of the world and different countries. For example, there may be need for a Hofstede-like study on strategic orientations of executives in North America, South America, Asia, Western Europe, and Eastern bloc countries. This research represents an early step in the process toward understanding strategic orientations in global markets.

Our research suggests that firms based in different home countries may approach the same strategic opportunities and global markets in different ways. This is because of their different strategic orientations. While these differences are clearly important in understanding competitive forces within any market, they also are important for the formation and successful implementation of joint ventures based in two different home

countries. This research also suggests how different national priorities and institutional arrangements can affect the strategic orientations of managers/firms. Clearly, firms must learn how to effectively compete and manage their operations across global markets and multiple country borders. It is important for cooperative and competitive strategies, alike. This research only begins the journey to develop a better understanding of the different strategic orientations throughout the world. Samsung's CEO, Lee Kun-Hee, argues that his firm cannot compete effectively without understanding things considered 'alien' to the Korean culture. Paraphrasing the classic military strategist, Sun Tzu, Lee stated, 'knowing yourself and your enemies is the first prerequisite to becoming a warrior' (Nakarmi and Neff, 1994: 75).

ACKNOWLEDGEMENTS

We are indebted to Kae Chung, Seung-Seop Ryum, Se-Hoon Park, and John Slocum for comments on earlier drafts of this manuscript. We also benefited from conversations with Jay Barney, Barry Baysinger, Albert Cannella, Javier Gimeno-Gascon, Robert Hoskisson, Hicheon Kim, Paul Marer, and Tom Turk.

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