
Strategic Options for Internationalization in Korean Organizations

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Abstract

Globalization of economy brings both opportunities and threats especially for companies in developing countries such as Korea. Globalization is an opportunity because it may expand the size of market for the company where globalization brings a threat for developing global competitiveness. If the company has already built competitive advantage in its business domain, the company can easily transfer market growth to profit improvement. However, if the company has not developed competitive advantage, globalization of economy will give a serious threat for the survivor of the company. The company might lose its own domestic market share. For the less famous brand of product or company name, international expansion is a challenging strategy. The study evaluated organizational performance of companies that try international expansion by utilizing Miles and Snow's strategy typology. We clustered organizations based on their strategy typology (prospector, analyzer, defender, and reactor) in view of the level of product diversification, new product development instances, level of localization, and autonomy of foreign subsidiary. With the strategy typology, we evaluated international strategy in view of product competitiveness, marketing strategy, human resource strategy, and organizational strategy. The regression result demonstrates that the performance of the company is significantly higher when the company employs prospector strategy. We also found out that product quality and emphasis for developed countries in international expansion are the most important factors for success.

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I . Introduction

Organizations have long sought to achieve competitive advantage in dynamic environment. Gaining competitive advantage sometimes represents to be different from market participants. Many strategic management researches found out that applying different strategies eventually reshapes organizational internal processes and external market structure (Child, 1972; Bogner, 1993).

However, similarity among organizations also has received a great deal of attention in strategic management and organizational theories (Deephouse, 1999). Institutional power that forces the organizations to be similar each other was the main stream of research. For the most part, researchers have focused on one side of the similarity question, that is what the value of being different is, or what is the value of being the same.

Where gaining competitive advantage has been a foremost objective for the organization, being the same (utilizing identical strategy) cannot generate the main objective. Being different, an organization benefits because it faces less competition, *ceteris paribus* (Barney, 1991; McGrath et al.,1995). By being the same, an organization benefits because it is recognized as legitimate, *ceteris paribus* (Dimagio and Powell, 1983; Meyer and Rowan, 1977;

Pfeffer and Salancik, 1978).

Globalization of economy enforces organizations into two mutually exclusive directions. One way leads organizations being the same by adopting global standard in organizational management and production processes. The other way leads to be different pursuing organization specific competitive advantages. Researchers recognized the tension between the need for a firm to be different and the need for a firm to be the same. Porac, Thomas, and Baden-Fuller (1989) suggested that strategist needed to balance on a competitive edge between simultaneous pressures to conform and to differentiate. Abrahamson and Hegeman (1994) observed that strategic conformity reduces both competitive risk and opportunities for competitive advantage. Chen and Hambrick (1995) noted that theory and research on competitive conformity - its cause and effects - should be a high priority for the field of strategy.

II . Miles and Snow' s strategy typology

The Miles and Snow (1978) strategic typology - defenders, prospectors, analyzers, and reactors - has generated a comparatively large amount of interest, investigation and support (Hambrick, 1979; Meyer, 1982;

McDaniel and Kolari, 1987). Although these studies have contributed significantly to the body of knowledge on strategic archetypes, there is nevertheless a need for further research. For instance, a review of strategy literature reveals an increasing level of in operationalization and measurement of strategy constructs (Bourgeois, 1981; Ginsberg, 1984). In this context the paragraph approach to measuring Miles and Snow's strategic types employed in a number of previously referenced studies reveals a tendency to oversimplify the multidimensionality of archetype construct (Conant et. al., 1990). Typically, only two of three of strategic dimensions explicated in Miles and Snow's adaptive cycle model are considered and evaluated in this approach. Furthermore, most previous research has tended to exclude the reactor type from the scope of analysis. The need for multidimensional construct of strategic behavior is gaining a strong support for assessing organizational strategy. Furthermore, the relationships with overall performance have not gained strong references yet.

Miles and Snow (1978) proposed a relatively complex strategic typology interrelating organizational strategy, structure, and process variables within a theoretical framework of co-alignment. The theoretical foundations of Miles and Snow typology can be traced to Child (1972) classic conceptualization of strategic choice.

Miles and Snow proposed that organizations develop relatively enduring patterns of strategic behavior that actively co-align the organization with its environment. They viewed the 'adaptive cycle' characterizing this process as involving three imperative strategic 'problem and solution' sets.

The first one is an entrepreneurial problem set. It centers on the definition of an organization's product-market domain relating how the organization orients itself to the marketplace

The second one is an engineering problem set. It focuses on the choice of technologies and processes to be used for production, service, and distribution.

The third one is an administrative problem set. It involves the selection, rationalization, and development of organizational structure and policy processes. It involves how the organization attempts to coordinate and implement its strategies. Each of the three problem sets involves multiple dimensions.

Based on the three domains of adaptive cycle, the characterization of strategy typologies can be expressed below. A firm following a prospector strategy frequently adds to and changes its products and services, consistently attempting to be first in the market. Such a firm tends to stress innovation and flexibility in order to be able to respond quickly to changing market conditions.

An analyzer's strategy is to maintain a relatively stable base of products and

services while selectively moving into new areas with demonstrated promise. An analyzer tends to emphasize formal planning processes and tries to balance cost containment and efficiency with risk taking and innovation.

A defender's strategy is to offer a relatively stable set of services to defined markets, concerning on doing the best job possible in its area of expertise. It emphasizes tight control and continually looks for operating efficiencies to lower costs.

A reactor essentially lacks a consistent strategy. Its strategy has characteristics of each of the other type's strategies at different times and thus is difficult to categorize clearly.

A recent extensive review of research using the Miles and Snow typology found few attempts to assess the reliability or validity of its measures systematically (Zahra, 1990). Snow and Hambrick (1980) and Hambrick (1981) reported interrater reliability assessments for expert raters ranging from .49 to .76 and Boeker (1989) reported reliabilities ranging from .57 to .82. Hambrick (1983) also found that prospectors had a significantly higher ratio of research and development expenses relative to sales than defenders and a significantly higher ratio of marketing expenses relative to sales. Smith and colleagues (1986) found mixed support for the typology's validity. For the most part, researchers have inferred its

validity from various qualitative observations without conducting further testing (Snow and Hrebiniak, 1980).

Researchers have used the typology to study strategic behavior in a wide variety of organizations and industries. Snow and Hrebiniak (1980) found that prospectors, analyzers, and defenders outperformed reactors in competitive but not highly regulated industries. Hambrick's (1983) data indicated that defenders consistently outperformed prospectors in profitability and cash flow but that prospectors outperformed defenders in market share gains in innovative industries. Zajac and Shortell (1989) discovered that prospector and analyzer hospitals outperformed defender hospitals in the rapidly changing health-care environment, results that Shortell, Morrison, and Friedman (1990) subsequently confirmed. The typology has also been used to differentiate tobacco firm's responses to environmental threats (Miles & Comeon, 1982).

III . Research Design and Methodology

Snow and Hambrick (1980) distinguish between four broad approaches for identifying strategy typology. The approaches to measure strategy typology are

self typing, objective indicators, external assessment, and investigator inference.

Conant et. al., (1990) identified some missing rationales in four approaches. Based on their arguments, all four of these approaches have been employed in previous operationalizations of Miles and Snow's strategic typology. Some studies have relied on single-item scales when operationalizing what is recognized to be a multi-dimensional construct.

The paragraph approach has been the most widely employed method to operationalize Miles and Snow's strategic typology. Recent attempts have been made to operationalize and measure Miles and Snow's strategic types using multi-item scales. Although many researchers have advocated the use of multiple approaches to operationalize and measure key operational constructs, few studies have employed multiple approaches to operationalize and measure Miles and Snow strategic typology.

The use of single-item scale is generally viewed appropriate, when they relate to a simple unidimensional construct, and can be measured with minimal measurement error. However, such scales are of limited value when they cannot adequately capture the broader concept being measured (Nunnally, 1978).

Hambrick (1983) proposed unidimensional approach for the strategy measurement because strategy typology needs to be captured in integrative nature and aspects.

The paragraph approach requires that respondents read short paragraph-length descriptions of each of the four strategic types, and then select only one type that best represents his or her organization. Even though the paragraph approach has been widely used, it can not be free from personal bias. The respondents' behavior may vary when they really make a decision and when they make an evaluation themselves.

We decided to employ integrative measurement using self typing, objective indicators, and investigator inference. Self typing is used for the questionnaire responses. Objective indicators are used to measure respondents' strategic behavior such as market orientation, process definitions, and foreign business strategies and so on. However, the final judgment for organizations' strategic typology is based on the factor analysis which made composite components into a single strategy typology.

The advantage of this process is two folds. First, this process does not generate any bias for the respondents to be only one strategy typology. Responding various strategic process questions, the respondent's strategy typology is naturally declared. Second, the concept of strategy typology can employ some other distinguishing factors to differentiate strategy typology. For example, the global economy emphasizes the strategy for internationalization whether the organization is big or small. International business for the organization is not an option

any more. Bringing respondents from the relatively homogeneous pool, Korean companies, we could generate international strategy as another aspect for strategy typology.

The questionnaire items were developed for strategy and market orientation of organization. The sample was selected from top 2,000 leading exporters in Korea. As Korean economic policy has been an export

orientation from early 1960s, top exporters can be safely regarded as industry leaders.

The response rate was 22.5% (458 respondents) and most respondents were middle level managers. As the respondents were not top level, utilizing strategic orientation from the multiple measurements is more appropriate.

Table 1 presents descriptive statistics for the research variables.

<Table 1> Description of variable and construct used in the analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Sales	428	.01	280.00	1.6786	14.9506
Profit	430	1.00	7.00	4.2488	1.2237
Future_sales	429	.00	7.00	4.0023	1.4749
Prod_diversity	427	1.00	7.00	5.0023	1.46236
New_prod_intro	425	1.00	7.00	4.6471	1.52577
Adaptability	427	1.00	5.00	2.2201	1.17416
Autonomy	383	1.00	7.00	5.1279	1.59739
LnCpital	406	-2.30	10.74	2.7768	2.23477
LnEmployees	429	.69	10.82	4.4321	1.85932
Market_develCntry	423	.00	1.00	.6572	.47520
Price_ratio	426	30.00	150.00	82.3897	14.41595
Own_brand_equity	427	.00	100.00	58.3590	44.01088
Quality	427	14.30	250.00	85.5265	17.58650
Product_comptncy	429	1.00	7.00	6.4242	.93327
Price_comptncy	430	2.00	7.00	6.3209	.92330
Promotion_comptncy	429	1.00	7.00	4.5221	1.54907
Place_comptncy	427	1.00	7.00	4.9368	1.60931
HR_language_Know	430	1.00	7.00	4.5302	1.37883
Defender	378	.00	1.00	.3122	.46399
Prospectors	378	.00	1.00	.3228	.46815
Reactors	378	.00	1.00	.1746	.38013
Analyzers	378	.00	1.00	.1905	.39320
Valid N (listwise)	344				

We developed and modified questionnaire items in order to differentiate strategic typology. Based on the Miles and Snow's theory and multiple components from the responses, we applied cluster analysis in order to classify organizational strategy

typology. Our study generated four clusters that are significantly different each other and four clusters successfully categorized four strategy typology. Table 2 shows cluster analysis.

<Table 2> Final Cluster Centers

	Cluster			
	Defender (n=118)	Prospector (n=122)	Reactor (n=66)	Analyzer (n=72)
Prod_diversity	4.13	6.25	3.64	5.68
New_prod_intro	3.62	5.95	3.18	5.50
Adapt	2.24	1.65	3.05	2.39
Atonomy	6.03	6.19	3.24	3.68

The cluster analysis shows four distinguished aspects for each strategy typology. The aspects are product diversity, new product introduction, adaptation, and autonomy. Product diversity refers that the organization's strategic intent to provide various versions of the product. New product introduction means the organization's ability to introduce new product in a short period of

time. Adaptability denotes the organization's effort to modify the product for the various markets. Autonomy indicates the level of decentralized decision making structure.

Table 3 shows frequencies of strategy typology from the data. The number of responses shows that defender and prospector are similar and reactor and analyzer are also similar.

<Table 3> Frequency Table

Frequency	Valid Percent	Cumulative Percent	
Defender	118	31.2	31.2
prospector	122	32.3	63.5
Reactor	66	17.5	81.0
Analyzer	72	19.0	100.0
Total	378	100.0	

We developed the rational that the relationship between organizational strategy typology and organizational performance should be somewhat significant. As most strategy typology researches have not concluded, using relatively homogeneous sample (Korean leading exporters) is expected to generate significant result.

First, we utilized ANOVA in order to investigate the performance relationship with strategy typology. We devised three components for performance, such as profit, sales and future sales expectation. The rationales to regard this way are two folds. First, the sample is relatively homogeneous.

The leading exporters in Korea are relatively stable in their market position and their strategy has not been changed very much. Second, compared to domestic business oriented organizations, exporters need to concentrate their strategy for increasing sale and improving profit in relatively in short period of time. The government policy and incentives lead relatively narrow scope for foreign business

Table 4 presents the relationships among dependent variables and strategy typologies. The analysis shows only profit demonstrates significant relationship with strategy typology.

<Table 4> Analysis of Variance

		Sum of Squares	df	Mean Square	F	Sig.
sales	Between Groups	955.342	3	318.447	1.256	.289
	Within Groups	94350.467	372	253.630		
	Total	95305.809	375			
profit	Between Groups	26.340	3	8.780	5.893	.001
	Within Groups	557.205	374	1.490		
	Total	583.545	377			
fsales	Between Groups	15.999	3	5.333	2.450	.063
	Within Groups	811.831	373	2.176		
	Total	827.830	376			
	Within Groups	700368.932	371	1887.787		
	Total	716958.251	374			

Based on the ANOVA result, we decided to investigate the most contributing factor with organizational performance, in other words the relationships with profit.

The export market has been defined as product competitiveness (Porter, 1980). The price competitiveness or quality advantage may lead to the superior performance. Considering strategy typology, product competitiveness may be independent if we consider relatively short period of time. If we consider longitudinal standpoint, strategy typology and product competitiveness may be strongly correlated. Based on this short term perspective, we developed hypothesis 1 below:

H1: Organizations that have higher level of product competitiveness will have higher rate of profit.

As we investigated middle managers, their time frame could not be long enough. In the cross sectional research, but not in the longitudinal research, organizational profit is strongly related with marketing strategy. Rigorous marketing strategy tends to improve short term profit. However, strong marketing strategy without improving competitive edge eventually erodes the initial advantage. We considered marketing strategy as a significant factor related with profit. Based on this argument, hypothesis 2 was developed:

H2: Organizations that have strong marketing strategy will have higher rate of profit,

In the global business, the most important factor for competitiveness has been considered as human resources (Peng & Luo, 2000). Where technical resources or institutional advantages can be easily eroded, human resources are hard to imitate and to substitute. Organizational human resource is the only source of sustainable competitive advantage. Based on this argument, we developed hypothesis 3:

H3: Organizations that have higher level of human resource will have higher rate of profit.

The argument of strategy typology is sometimes criticized as ex post description. This means the rather than managerial decisions and actions, organizations' decision making habits are articulated afterward. In order to minimize this critic, we evaluated the strategy typology based on respondents' questionnaire items so called 'integrative measurement using self typing, objective indicators, and investigator inference.' We believe that strategy typology and organizational performance may have somewhat stringent relationship. Based on this argument, we developed hypothesis 4:

H4: Organizations that have different strategy typology will have different rate of profit.

(Table 5) Results of Regression Analysis

Variables	Basic Model	Product Competitiveness	Marketing Strategy	Human Resource	Strategy Typology
Basic Model					
LnCpital	.120	.085	.092	.078	.065
LnEmployees	-.012	-.022	-.030	-.018	-.038
Market_develCntry	.118*	.140**	.142**	.149**	.143*
Product Competitiveness					
Price_ratio		.018	.024	.023	-.015
Own_brand_equity		.059	.052	.061	.052
Quality		.160**	.146*	.136*	.152*
Marketing Strategy					
Product_comptncy			.044	.025	-.040
Price_comptncy			-.036	-.033	-.018
Promotion_comptncy			.100	.092	.088
Place_comptncy			.003	-.009	-.023
Human Resource					
HR_language_Know				.095	.059
Strategy Typology					
Defender					-.190**
Reactor					-.179**
Analyzer					-.057
R ²	.026	.055	.069	.077	.111
R ² Change		.029	.014	.008	.034

§ The reference group in the strategy typology is prospector.

* p<.05, ** p<.01, *** p<.001

IV. Results

The basic model includes the size of the organization such as capital range and number of employees and target market. Capital and number of employees were recoded with natural log because the value is high. Target market is distinguished by the main foreign market is either less developed countries or developed countries. The strategic orientation may vary by the target market with organizational demographic variables. If the organization emphasizes developed countries for its target market, the strategy should be different from the organizations for less developed countries. The strategic orientation for different level of countries will also end different level of profitability by dealing with more value added products. The basic model results show that target market orientation has a significant relationship with the profitability. Other factors that reflect the size of the organization such as capital and number of employees did not show significant relationship.

The second model, adding variables concerning product competitiveness factors show that only quality is the significant predictor for profitability. R square change was .029. Price ratio and brand equity did not have significant relationship with organizational profitability.

The third model added marketing strategy

resulted that no significant relationship with the level of profitability. R square change was .014.

The fourth model adding organizational human resource also resulted in no significant relation with performance. R square change was .008. Human resource in this study measured organizational members' foreign language capability.

The final model adding strategic typology resulted in significant relationship with organizational performance. Prospector strategy is significantly outperformed other strategy organizations. We based prospector as a reference group to investigate significant relationship. Many strategy typology researches concluded that prospector strategy demonstrated significantly higher level of performance (Conant et. al., 1990; Shortell and Zajac, 1990). Based on the past research results, we based prospector as a reference strategy. R square change was .034 and R square was .011.

V. Conclusion

The study employed Miles and Snow's strategy typology for evaluating organizational performance of Korean leading exporters. The results demonstrated that prospectors outperformed other strategies.

This study contributed to the academia and

practitioners in three perspectives. First, strategy typology study has pushed respondents to be only one set of strategic behavior. Other options were not available. In the information age, fast changing and very turbulent environment urges organizations to be fast adaptors. Strategy typology research should adopt this phenomenon. Based on organizations' various strategic behavior, researchers could apply triangulation to assign organizations' representative strategic behavior.

Second, not many studies are done for Korean exporter recently. Entering into information age, the Korean exporters showed structural change from utilizing cheap labor to creating new technology and market such as MP3 players and multi functional cellular phones. In the transitory environment, this study will light a way that organizations should follow.

Finally, this study shed a light to both academia and industry analysis practitioners. Two strategic options in global environment, being the same or being different, have not met any conclusive remark. Still some researcher and practitioners emphasize organization specific factors as the only source of sustainable advantage. Others start to consider revitalized institutional power considering fast spreading technology and standard setting environment. Keeping organization specific advantage might lose whole market abruptly as Sony's Beta max video cassette disappeared. Our study shed a

clue for strategic options such a turbulent digital business arena. Organizations need to use bold competitive position with maximum flexibility. Traditional marketing strategy may not appropriate. Emphasizing quality in the arena, bold prospectors will survive in the global marketing arena.

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