

MULTIMARKET MANEUVERING IN UNCERTAIN SPHERES OF INFLUENCE: RESOURCE DIVERSION STRATEGIES

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Firms competing in multiple markets find equilibrium through spheres of influence and mutual forbearance, but imperfect competitive information may give one firm an incentive to influence rivals' behavior and uncover information. We suggest that a firm's resource allocations can divert competitors' resource allocations, enhancing the firm's own sphere of influence without precipitating a destructive all-out war. We define the stratagems *thrust*, *feint*, and *gambit* and conclude that corporate strategy decisions can only be imperfectly understood if competitive interaction is not taken into account.

In this article we focus on how a firm can strategically use corporate-level resource allocations to reconfigure spheres of influence in multimarket competition. By leading competitors to divert their resources, a firm can improve its own returns. *Strategic amplification* is a phrase coined to reflect actions a firm takes to shape the strategic context within which it competes, instead of focusing on attributes of its own strategy (McGrath, 1997). We examine here how one firm can influence competitive context by influencing the resource allocations of another, through a process we term *strategic resource diversion*.

THEORETICAL REVIEW

Corporate Strategy and Multiple-Point Competition

The direct concern of the multiple-point competition literature is the interdependency created when the same corporations face off

against one another over different products and in different markets (Karnani & Wernerfelt, 1985). When firms compete against one another in multiple markets, resource allocations can reconfigure the competitive context. Baum and Korn, for instance, observe that "firms' entries into and exits from each other's markets modify the very competitive structure that influences their actions" (1996: 286). It is this aspect of multiple-point competition that leads us to explore the potential for using decisions about corporate resource allocation as mechanisms for proactively restructuring the competitive context.

The key metric by which to assess the effectiveness of a firm's corporate strategy is its overall ability to consistently generate above-normal returns—or "rents" (Alchian, 1991; Bowman, 1974). This suggests that corporate strategy needs to take two premises into account. First, the overriding objective is to achieve the best long-term rent-generating position for the corporation as a whole—not to maximize any individual subsidiary unit's performance. Second, to achieve this objective, companies must actively coordinate and integrate the interdependencies among different subsidiaries (Kim & Hwang, 1992). Consequently, basic concerns are how a firm can leverage its position in one market to enhance its position in another (Kogut, 1985), or how it can use its multiple investments "so that if one col-

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lapses or is attacked, the firm can turn to others" (Aaker & Mascarenhas, 1984: 77).

The points at which competitors meet represent *arenas*¹ in which competitive moves and countermoves can be made. Arenas can be shared geographical markets (Caves & Porter, 1977) or lines of business (Feinberg, 1985). When rivals encounter each other in multiple arenas, responses do not necessarily occur at the same point at which an attack is launched (Karnani & Wernerfelt, 1985). This ability of rivals to counter one another in multiple markets creates a complex game, in which the outcomes for any individual player are entwined with the strategic choices made by other players (Gimeno & Woo, 1996).

Multiple-Point Competition and the Mutual Forbearance Hypothesis

When a firm considers a move in any one market, the reality of mutual dependence creates concern for possible competitive retaliation in other markets (Amit, Domowitz, & Fershtman, 1988), which generates *mutual forbearance* (Edwards, 1955). The mutual forbearance hypothesis maintains that potential cross-market retaliation tends to deter competitors from attacking aggressively in any given market (Barnett, 1993; Ma & Jemison, 1994).

In an important theoretical argument, Bernheim and Whinston (1990) examined a simple two-firm, two-market situation with different cost structures. They proved that, under appropriate discount conditions, the following occurs: (1) when cost advantages are symmetrical, a firm can maximize its profits by shifting sales in each market toward the more cost-efficient firm in that market, and (2) if one firm has an absolute cost advantage, both firms can maximize their profits by allocating sales to the inefficient firm in high-price markets, yet offer different pricing in markets that are identical.

This argument underpins the tendency for firms in multimarket situations to develop *spheres of influence*, in which each firm "may informally recognize the other's primacy of interest in markets important to the other, in the

expectation that its own important interests will be similarly respected" (Bernheim & Whinston, 1990: 11). The degree to which a particular firm is accorded a sphere of influence is determined by its specific advantage (or lack thereof) in each of the contested markets. What is then critical to the final structure of the different players' spheres of influence is their relative cost (or price/quality) advantage. This theoretical argument is supported by several studies (see Mueller, 1977, for a comprehensive review), although the empirical results are not unanimous (Baum & Korn, 1996; Scott, 1982).

It makes sense to practice mutual forbearance. Some circumstances, however, make forbearance difficult—for example, when previously established spheres of influence are disrupted, when firms take positions to create new points of leverage, or when they are asymmetric in their objectives.

Pressures on Mutual Forbearance

Disruption of previous equilibrium state. If a major change in competitive conditions in one of the arenas disrupts the mutual forbearance equilibrium, firms will seek to establish a new one. Examples of changes that disrupt existing industries are plentiful: the emergence of highly desirable new product features, such as flip-top soda and beer tabs in the beverage industry; the development of new low-cost processes, such as float glass in the global plate-glass industry; the reconfiguration of markets, such as clothing retailing (when more female professionals entered the workplace) or health care (as the population has aged); the emergence of new distribution channels, such as ATM machines in banking or specialty chains in pet foods; new developments in sourcing, such as when plastic replaced wood and metals in packaging; or the regulation or deregulation of industries, such as U.S. airlines and telecommunications. Each of these developments threw existing spheres of influence into disarray, forcing players to accommodate.

Lacking information that will allow the rational calculation of relative advantage, competitors instead operate in the dark, making moves and reacting to moves as targets and aspirations shift in the new environment (Cyert & March, 1963; March & Simon, 1993). With re-

¹ We define arena broadly here to include both product- and customer-based concepts, such as product type, geographical market, and industry segment.

peated interaction, players can begin to converge on a new equilibrium point.

Creation of new points of leverage. In order to enforce their power in the future, firms may enter previously unoccupied competitive arenas. For instance, Kodak's entry into the Japanese domestic photographic film market created a future punitive lever against Fuji film.² Although the move may not have had a direct payoff in profits, it created considerable opportunity for Kodak to gain enforcement power over a rival in an arena in which the competitor previously was immune.

Asymmetric objectives. Although mutual forbearance assumes that firms have similar objectives in common, that is not necessarily the case. Firms from different nations, for instance, may be motivated by different objectives (Yip, 1995: 50). For example, Japanese firms often are characterized as seeking growth in revenues and employment stability before profits. Mutual forbearance on the profit dimension may make little sense against a growth-oriented, profit-neutral player. In fact, a Japanese firm could well exploit mutual forbearance, contentedly capturing revenue gains in one arena while a competitor attacks its profits in another. Similarly, privately held firms and government-controlled firms often have objectives for which they are willing to trade off profits, so they behave in ways that do not make sense in a mutual forbearance context. The concept of asymmetric objectives is important, because in many countries family firms and government firms dominate the economy.

What are we to conclude? First, it is clearly advantageous and eminently logical for firms in multimarket competition to resort to what Parkhe calls "private ordering" (1993: 802). Private ordering refers to a condition in which, because third-party policing and adjudication cannot enforce voluntary cooperative relationships, actors reach self-reinforcing agreements. However rational, private ordering is not always possible; when existing spheres of influence are disrupted, the lack of perfect information introduces a major complication. In complex multimarket or multiproduct situations, much of the information upon which a strategist would prefer to base a choice of moves is not available.

Global industries with many players are particularly vulnerable. As Phillips (1962) points out, the greater the number of competitors, the more balanced the power distribution among them. Further, the less homogenous the values of the players, the more difficult to ascertain the true parameters of the game, as differing values decrease the quality and interpretability of information available to other players.

A company, in other words, often does not know a rival's true cost or quality functions, or how innovations affect those functions. Also, it is often impossible to anticipate how demand and markets will change. In short, without direct and detailed information sharing (which is often proscribed), it is hard for a company to know what sphere-of-influence arrangements would be optimal. Formal organizational networks among firms are one response (Astley, 1984; Phillips, 1962; Warren, 1967), but without such coordination mechanisms, firms will experience an enormous temptation to obtain information in other ways or to act opportunistically. Forays into rivals' spheres reflect this temptation.

Periodic Forays

The ambiguity of complex competitive environments creates a powerful incentive for firms to obtain more accurate information than rivals have. Thus, whenever a player senses that circumstances might have changed to its advantage—or could be changed to its advantage—it may resort to modest deviations from the current state of mutual forbearance (Williamson, 1975), making periodic opportunistic forays to probe competitors' current cost or quality structures. The responses help the firm capture information about competitors' current capabilities and intentions.

Kreps points out that firms use such information for long-term improvements or updates to the models that inform short-term actions and reactions (1990: 155). The practice is analogous to the former Soviet Union's use of airplane forays to probe the U.S. Distant Early Warning defense systems. What stops such forays from precipitating all-out war? The clue comes from the empirical work of Bendor, Kramer, and Stout (1991). Using the Prisoners' Dilemma as an example, they demonstrate that the absence of perfect information causes players confronted with deviations from cooperative behavior by

² We thank an anonymous reviewer for this insight.

competitors³ to depart from purely punitive tit-for-tat behavior and to act more "generously." If business rivals lack other information, they may view periodic forays (deviations from cooperative behavior) as part of the give and take of competition and feel no need for major punitive responses. Instead, midrange responses, such as signaling (Porter, 1980), and changes in commitment to some, but not all, arenas can allow competitors to move toward new mutual forbearance arrangements, without totally destabilizing the game.

The path-dependent and cumulative nature of company resources (Barney, 1991; Dierickx & Cool, 1989; Nelson & Winter, 1982) further limits destabilizing retaliatory responses, for a firm making rapid changes in the way it competes is both stressful and destructive of the considerable value of its accumulated know-how and competencies. This fact has two implications: (1) decision makers are likely to prefer continuing with established sphere-of-influence arrangements, rather than moving to entirely new ones, and (2) the impact of moves and counter-moves will be heterogeneous for a population of competitors (Amit & Schoemaker, 1993). What strategists in one firm may perceive as a unique opportunity to create an advantage or seize an opportunity, those in another firm may not.

Strategic Resource Diversion

We have now set the stage for the concept of strategic resource diversion. By undertaking moves that cause competitors to divert resources in a way that is idiosyncratically beneficial to itself, a firm can enhance its returns at a lower cost than if competitors continued their existing pattern of resource commitment. It is important to recognize that, given heterogeneity of resources and motives, such strategic actions need not be zero sum and need not subject either firm to aggressive retaliation.

It may, in other words, be possible to reconfigure spheres of influence in such a way that competitors *also* benefit (Brandenburger & Nalebuff, 1996). When competitors can be guided into diverting their resources to arenas in which they

enhance *their* spheres of influence, both sides win. After the establishment of new spheres of influence, mutual forbearance again prevails, and an increase in profits for all is the result. Such mutual adjustment of spheres of influence lets firms engage in more subtle competition than what Parkhe calls the "red in the fang and claw variety" (1993: 819). They can, instead, pursue what he calls "interfirm cooperation in the pursuit of individual competitive advantage" (1993: 819).

We develop this idea in more depth next, suggesting ways to extend corporate strategy theory to take into account resource allocations designed to accomplish strategic resource diversion. To do this, we first draw from the literature on competitive rivalry and then apply this literature to propositions regarding three fundamental resource diversion moves.

Insights from Competitive Rivalry Theory

The competitive rivalry literature has yielded two ideas that are germane to strategic resource diversion: (1) the study of the exchange of competitive attacks and responses can help in analyzing rivalry (Porter, 1980; Smith, Grimm, & Gannon, 1992), and (2) factors such as the attributes of the attack, the degree of the attacker's commitment, and the importance of the attacked markets to the defender (Chen & MacMillan, 1992) can predict response behaviors (Chen, Smith, & Grimm, 1992).

Chen and Miller (1994) have shown that three components make up the *competitive context*, interacting to shape likely responses to any given competitive move. The first has to do with the capacity of the firm to respond (Porter, 1980). No matter what a firm's intentions, if it is not able to launch a meaningful response because of a lack of resources or competing claims on limited resources, it is unlikely to take action. The second component is motivation (Porter, 1980). If a firm has ample resources with which to respond, but no motivation, one would not expect a meaningful reaction. Finally, a firm must become aware of what competitors are doing in time to take action.

Because capability and motivation are associated with propensity to react, a firm must understand them to induce a particular response on the part of a target competitor. Any analysis to uncover opportunities for resource diversion

³ Axelrod and Dion (1988) note that in such noisy circumstances there is a tradeoff, since unnecessary conflict that can be avoided by generous behavior carries the risk of exploitation of the generous party.

needs to assess the capability and motivation of key players on an arena-by-arena basis. We propose that such an analysis can be conducted for each player (including the focal firm) by considering two major characteristics of the player's position in each arena. First is the player's competitive strength in a particular product/market arena. Competitive strength stems from such factors as market power or early mover advantages (Lieberman & Montgomery, 1988; Montgomery, 1985). It represents a player's capability in a given arena. Second is the player's market stake, which reflects its commitment to and dependence upon that arena. Arenas to which a firm has made considerable financial, social, or psychological commitments (Chen & MacMillan, 1992; Ghemawat, 1991) are likely to be more important to decision makers than arenas for which previous commitment has been modest. Similarly, arenas that the firm depends on for revenues and profits are likely to be more salient to decision makers than others. The greater the player's market stake in a particular arena, the greater the motivation to take actions in that arena, particularly with respect to defending it.

Competitive strength and market stake do not necessarily correlate. A firm may find that it has considerable competitive strength without a commensurately high stake, as when a large conglomerate has a big share of what it considers an unimportant market. Spinoffs may result—for example, General Electric's television business, which was exchanged for Thomson of France's medical imaging business. Similarly, firms may be extremely committed to a market in which they do not yet have a strong position—when they enter new markets (AT&T's entry into the credit card business) or emerging industries (Monsanto's entry into biotechnology).

In the next section we use the concepts of competitive strength and market stake to develop some initial premises of a theory incorporating strategic resource diversion and to show how a firm might use corporate strategy to shape competitive context in ways that enhance its spheres of influence.

STRATEGIC RESOURCE DIVERSION

The concept of strategic resource diversion addresses the degree to which a firm's resource allocations affect the resource allocation decisions of a target competitor and reshape

spheres of influence. Strategy comes from military thinking, where these ideas got started, and it has a long tradition in the management literature as well. Yip (1995) and Hout, Porter, and Rudden (1982), for instance, suggest that the essence of global competition is to attack a competitor in one country in order to drain its resources from another country. Brandenburger and Nalebuff (1996) have also discussed these ideas recently in applied game theory. We seek to link these general ideas of resource diversion to specific strategic moves. Following a military analogy, we explore three stratagems—thrusts, feints, and gambits.⁴

Thrusts involve a significant direct attack on a competitive arena, the purpose of which is to make competitors withdraw resources because they decide that further commitments in that arena will be too difficult or expensive. A feint is a firm's attack on a focal arena important to a competitor but not vital to the aggressor—not its true target arena. The feint is followed or accompanied by the firm's commitment of resources to the actual target arena. To prevent a rival from dedicating resources to the target arena, the firm engaged in a feint tries to compel its opponent to divert resources to defend the focal arena.

The third stratagem is what chess players call a "gambit." A firm visibly sacrifices a position in a focal arena, with the express intention of enticing the competitor to divert resources into that arena to enhance its sphere of influence there. The firm executing the gambit then can focus its resources on increasing its sphere of influence in its target arena (from which the opponent concomitantly may be reducing resource commitments). The result of a gambit, if accepted, is that *both* players end up with enhanced spheres of influence. The game is not necessarily zero sum.

Resource Diversion Propositions

In the interest of theoretical parsimony, we deliberately start with a simplified situation, in which two players (firms A and B) are engaged in competition in two product/market arenas (X

⁴ Derived from, but not the same as, the military strategies of frontal assault, flank attack, and strategic withdrawal, these stratagems reflect military tactics.

and Y). In each resource diversion move and in the associated propositions we present below, A is the initiator of an action intended to divert the resources of its opponent, B, and A's target arena, in which it wishes to enhance its sphere of influence by diverting B's resources, is X. The primary objective of A is to identify key factors that may influence B's resource allocation. For both firms the desired goal is to develop a superior rent-generating position across all markets in which they choose to compete.

For any given competitive interchange, then, the desired outcome for A is to be able to enhance its sphere of influence in a target market (X, in these scenarios). It does this through actions that have the effect of diverting a rival's resources, often to focal arenas in the rival's market (Y, in these scenarios). The extent of B's resource diversion, thus, is the dependent variable for any given competitive interchange, and the ultimate result is a readjustment and improvement of A's sphere of influence in X (and the concomitant potential for increased profits there).

Stratagem One: The Thrust

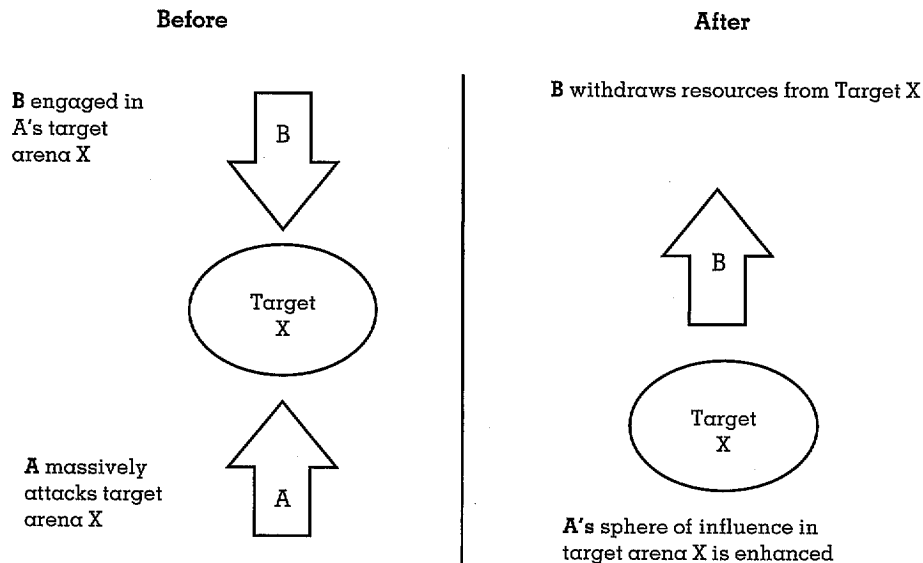
Figure 1 illustrates a thrust on a competitive arena. This is a situation in which firm A, intent on expanding its sphere of influence in arena X, launches a direct attack, putting intense pres-

sure on B to divert resources away from X, or even to withdraw completely from X. A well-known example of a thrust occurred when Japanese semiconductor makers advanced upon Intel Corporation's DRAM business in the mid 1980s. The Japanese firms used what they termed a 10 percent rule, which meant that they would cut prices on DRAMs to every target customer by 10 percent until Intel gave up on that customer (Grove, 1996). The eventual result of these combined thrusts was that Intel withdrew completely from the DRAM market. Intel subsequently diverted its resources to its then modest—but later spectacularly successful—microprocessor chip business.

In a thrust, A will have accomplished its purpose when its rival diverts resources to compete in other arenas, leaving A with an enhanced sphere of influence in the target arena X. The conditions under which a direct thrust is likely to yield the desired resource diversion effects can be articulated more formally as a function of three drivers.

The first driver is the relative competitive strength of the two players. Since any target competitor with a lower competitive strength than the aggressor is unlikely to possess a comparable level of capability with respect to that arena, it is more likely to look elsewhere for opportunities (Chen & Miller, 1994). The second driver is the relative market stake of the two

FIGURE 1
Thrust



players (Chen & MacMillan, 1992). The greater the market stake B has in X, the less likely it will be to divert resources. The greater the market stake A has in X, the more committed it will appear to be. The third driver is the credibility of the thrust.⁵ Since motives are often murky and information imperfect, there may be considerable ambiguity as to the intentions of competitor A (Nemeth, 1972). Hence, the greater the investment of resources is in the thrust, the more visible and credible the move is (Robertson, Eliashberg, & Raymon, 1995) and the more committed the firm appears (Ghemawat, 1991).

A firm sees another's competitive actions in the context of a complex interplay of deterministic, random, and purposeful strategic choice behaviors (Child, 1972). The true purpose of an aggressor's competitive move, therefore, can be unclear to its target, and the response of the target can be equally unclear to the aggressor. There is no guarantee that B will necessarily behave as A prefers. We can, however, make certain propositions. Ours are couched in probabilistic terms, because in the imperfect information environment there is no guarantee that the competitor will react as desired.

Proposition 1a: If A undertakes a direct thrust on an arena X, the greater the amount of new resources A commits to the assault, the more aware B will be of the assault and the more committed A's assault will appear to B—hence, (1) the more likely B is to divert resources away from arena X and (2) the greater the amount of resources B will divert from this arena.⁶

Proposition 1b: If A undertakes a direct thrust on an arena X, the greater A's competitive strength is relative to B's in arena X, the more capable A will appear to B in arena X—hence, (1) the more likely B is to divert resources away from arena X and (2) the greater

the amount of resources B will divert from this arena.

Proposition 1c: If A undertakes a direct thrust on an arena X, the greater A's market stake is in arena X, the more committed A will appear to B in this arena—hence, (1) the more likely B is to divert resources away from arena X and (2) the greater the amount of resources B will divert from this arena.

Proposition 1d: If A undertakes a direct thrust on an arena X, the greater B's market stake is in arena X relative to the market stake of B in other arenas, the more committed B will be to arena X, and the less likely B will be to divert resources away from arena X.

Stratagem Two: The Feint

In the second stratagem (Figure 2), two arenas are involved in A's attempts to maneuver for an increased sphere of influence. The first is A's target arena, X, in which it intends to protect or strengthen its sphere of influence. The other, Y, is a focal arena for B. In order to enhance its sphere of influence in the target arena X, A attacks B in focal arena Y and forces B to divert resources. Assuming limits on B's available resources, these are resources that B could have deployed to the target arena X. A new mutual forbearance structure evolves.

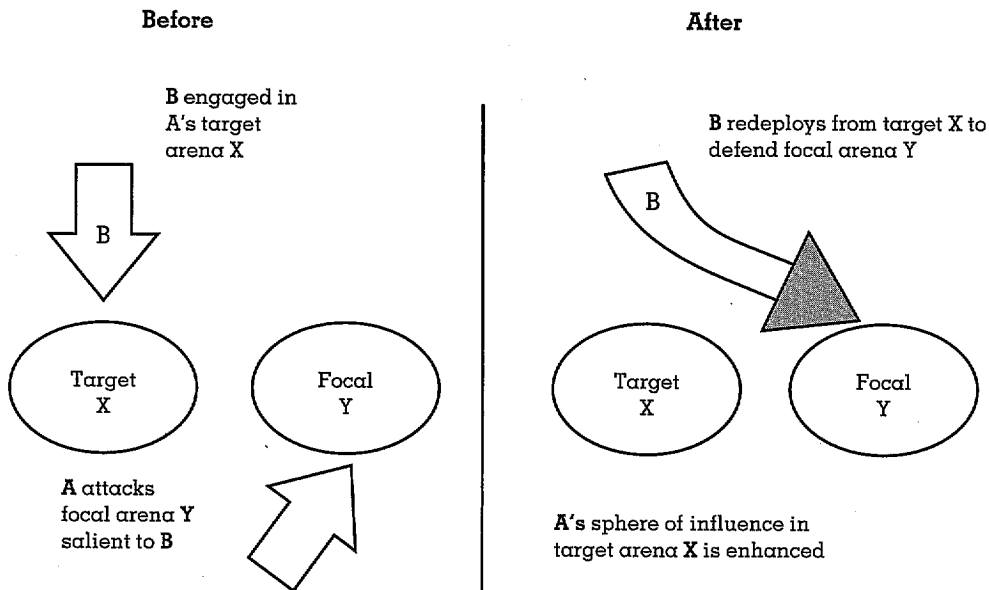
There are several variations of the feint stratagem. Firm A might attack Y and wait for B to respond. Alternatively, A could simultaneously attack X and Y and relent in Y only when B diverts from X. In a third variation A would keep the pressure on Y, even after B has diverted resources from X. The basic idea of all the variations is to direct B to divert resources from X to Y, while A builds or protects a sphere of influence in X. The following case from the pet food industry illustrates the third variation.

The American pet food industry underwent radical transition in the late 1980s (Liesse, 1992). A new segment of affluent, "diet-conscious" pet owners emerged—people with both money and strong emotional attachment to their pets (Turcsik, 1995). Ralston Corporation—the dominant player in pet foods, with 30 percent market share and the well-known Purina brand name—ignored the new market segment (Liesse, 1992).

⁵ Highly credible assaults often have the effect of exacerbating competitors' weaknesses (psychological as well as physical), dampening both their will and capacity for retaliation (Kotler & Achrol, 1984).

⁶ All propositions assume that B has limited slack and that, as slack increases for B, the likelihood and size of resource diversion decreases.

FIGURE 2
Feint



Other manufacturers targeted it, introducing such brands as Iams and Hill's Science Diet. These foods were initially sold in specialty pet shops or through veterinarians (Liesse, 1992).

Simultaneously, the mass market for pet food was changing. Pet supermarkets, such as PetSmart and Petco, eroded market share of traditional supermarket channels for pet food. These firms positioned themselves as offering the same or superior products at lower prices (Turcsik, 1995), even stocking the gourmet products made by the Iams manufacturer (Liesse, 1995).

In Ralston's view, supermarkets represented the target sphere of influence, X, whereas other outlets represented a possible focal arena, Y, for competitors such as Iams. For Ralston a desirable outcome would be to prevent the entry of the high-end competitors into supermarkets and to consolidate the Ralston position there. After all, most pet owners still tended to enter a supermarket at least once a week, but their trips to the pet superstore were less frequent.

Ralston's move was to develop and launch its Pro Plan line directly into pet shops and specialty stores. Positioned as a high-end food, it was priced slightly below Iams and Science Diet (Liesse, 1993). Ralston's feint precipitated a major defensive reaction from Iams and Hill's, who introduced new, even higher-quality lines in the

specialty channels, coupled with in-store promotions to pet owners (Liesse, 1995). In other words, these competitors diverted resources into their focal arenas. Although the move consolidated the position of Iams and Hill's in those arenas, it also created an impression that they were super premium products that could not be bought in supermarkets (Liesse, 1995). Thus, in defending arena Y, they locked themselves out of the supermarket mass-merchandising channels (Ralston's X) for fear of compromising their brand image.

The feint having succeeded, Ralston next executed a thrust. It introduced to the mass market a product called Purina O.N.E. (Optimum Nutrition Effectiveness). This was a premium brand pet food, the quality of which was almost the same as Ralston's Pro Plan line, but with a lower price (Liesse, 1993). It gave Ralston's mass distributors a premium-image, lower-cost product to offer in competition with the pet superstores. The equilibrium resulting from this competitive interchange left Iams and Hill's secure in the super premium channels, where Ralston retains a foothold (Liesse, 1993), but locked out of the traditional Ralston channels. Ralston now has a dominant share of the premium market, both in supermarkets and in other channels, and an enhanced image for quality.

Having illustrated the concept of the *feint*, let us now turn to the related propositions. Success from A's perspective would be to make B divert resources in order to defend its focal arena, whether or not A makes any headway in that arena. For this to work, three conditions must exist: (1) the incursion must attract B's attention, (2) the focal arena must be of considerable interest to B, and (3) B must perceive A's move as credible.

Any move in an arena in which B has substantial market stake is likely to both attract B's attention and be perceived as a significant threat (Chen & MacMillan, 1992). A defending firm may be willing to engage in an all-out struggle or "concentrate [its] entire effort on maintaining strength" under such conditions (Ohmae, 1982: 141). However, a move in an arena in which B has considerable competitive strength is likely to be seen as less threatening. B's perception of A's credibility depends on its perception of A's commitment and intentions. The greater the apparent amount of A's investment, the more credible (Robertson et al., 1995), the more visible (Chen & Miller, 1994), the more hostile (MacMillan, McCaffery, & Van Wijk, 1985), and the more intense (Chen et al., 1992) the attack will be considered to be. These ideas can be couched in propositional form:

Proposition 2a: When A feints at arena Y, the greater B's market stake is in arena Y, the more aware B will be of the feint and the more committed B will be to defending Y—hence, (1) the more likely B is to divert resources into arena Y and (2) the greater the amount of resources B will be likely to divert into arena Y.

Proposition 2b: When A feints at arena Y, the greater B's market stake is in arena X, the more committed B will be to defending X—hence, (1) the less likely B is to divert resources from arena X and (2) the smaller the amount of resources B will be likely to divert from arena X.

Proposition 2c: When A feints at arena Y, the greater B's competitive strength is in arena Y, the more capable B will be of defending Y—hence, (1) the less likely B is to divert resources into

arena Y and (2) the smaller the amount of resources B will be likely to divert into this arena.

Proposition 2d: When A feints at arena Y, the greater the amount of new resources A commits to arena Y, the more committed A will appear and the more aware B will be of the feint—hence, (1) the more likely B is to divert resources into arena Y and (2) the greater the amount of resources B will be likely to divert to defend arena Y.

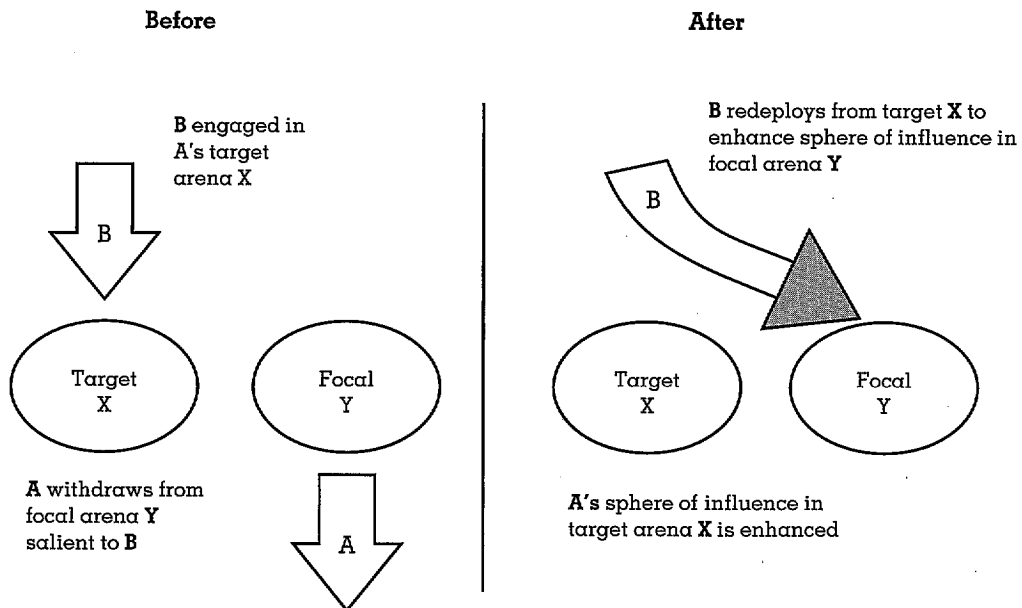
Proposition 2e: After a successful feint at arena Y, the greater A's market stake and competitive strength are in arena X, the more committed and capable A's foray into Y will appear to B—hence, (1) the more likely B is to continue to support arena Y, (2) the less likely B is to redirect resources to X, and (3) the greater the likelihood will be that a new sphere of influence will emerge.

Stratagem Three: The Gambit

In the game of chess, a *gambit* refers to a move in which a player sacrifices a low-value piece in order to establish a stronger position or to defend a higher-value piece. The competitive equivalent is withdrawing from an attractive competitive arena in order to entice rivals to divert resources into it. Enticing rivals into arenas of a competitor's choosing is widely practiced in various fields, including the military and sports. In soccer, for example, the German World Cup teams often have used a strategy known as *platoon formation* (Garcia-Ruiz, 1994). The play involves the German team drawing back most of its players into a defensive position in its own half of the field, thus enticing its opponents to make an offensive rush and expose themselves defensively. In business, competitors may sacrifice arenas with less importance to enhance a sphere of influence in other arenas.

As we illustrate in Figure 3, the *gambit* is manifest in A withdrawing resources from Y (an arena of importance to B) in order to divert B's resources to Y. By purposefully and visibly retreating from its position in focal arena Y, A is seeking to entice B to divert resources that B

FIGURE 3
Gambit



could otherwise devote to A's target arena X. In this case the focal arena Y serves as the gambit, and every unit of resources B diverts to Y is a unit that B is not devoting to X.

The long rivalry between Bic and Gillette illustrates the use of gambits in competitive interchange. Two arenas in which the firms competed were disposable lighters and razors. Gillette's traditional competitive strategy for razors was to focus technology on increasingly sophisticated cartridge-based shavers. Bic, however, developed formidable abilities to manufacture inexpensive, disposable products. Bic's aggressive entry into the disposable razor market in 1975 (*The Economist*, 1980) prompted entry by Gillette. A dismayed result for Gillette was that both Bic and Gillette disposable razors cannibalized Gillette's highly profitable cartridge razor business (*European Cosmetics Market*, 1993).

After 10 years of razor warfare, with low profits for both Gillette and Bic, Gillette executed a gambit in lighters. Bic had a strong sphere of influence in lighters and was making much better profits there than in razors (Daniels, 1984). In 1984 Gillette withdrew entirely from lighters and redirected its resources into razors (*Time*, 1984). Bic, in essence, accepted the gambit and diverted razor resources to support its lighter di-

vision. Meanwhile, Gillette focused on building a sphere-of-influence position in razors. Within 2 years Gillette had a 50 percent share in razors and was diverting the profits generated into a string of new products, particularly in the high-price segments (*European Cosmetic Markets*, 1993). This exchange of sphere-of-influence positions was followed 6 years later by Gillette's thrust on the cartridge razor market with its successful Sensor razor (*European Cosmetic Markets*, 1993).

As the case illustrates, by withdrawing resources from a market to which B is committed, A offers B the chance to capture an enhanced sphere of influence and immediate returns. A is thus capitalizing on dynamics that are well understood by behavioral learning theorists. As Levinthal observes,

past exploitation activities in a given domain tend to make further exploitation in that domain even more attractive, due to various sorts of competency learning. This positive reinforcement of activities in the current domain in which returns are relatively certain and favorable tends to drive out search for alternative bases of action (1995: 29).

Following that reasoning, further investment in the focal arena will appear more attractive to B than continuing to contend A's target. This

means that A's and B's relative competitive strength and market stake play a critical role in A's getting the desired response. It also means that both A and B can emerge from the interchange with more profitable positions in their respective arenas.

The size of A's move out of Y and into X and the degree of simultaneity affect the success of the gambit by enhancing B's awareness and confirming the credibility of the withdrawal. The greater the amount withdrawn, the more opportunity left for B. Similarly, the stronger B's position in its focal arena, the more likely a gambit will be effective. In withdrawing its resources, A protects its own target from becoming more interesting to B.

We have cast these arguments in propositional form:

Proposition 3a: When A uses an arena Y as a gambit by withdrawing resources, the greater the amount of resources that A withdraws, the more visible the withdrawal will be and the more committed A will appear to reducing sphere of influence in Y—hence, (1) the more likely B is to divert resources into arena Y and (2) the greater the amount of resources B will divert into this arena.

Proposition 3b: When A uses an arena Y as a gambit by withdrawing resources, the greater the competitive strength is of B in arena Y, the more capable B will feel in expanding in this arena—hence, (1) the more likely B is to divert resources into arena Y and (2) the greater the amount of resources B will divert into this arena.

Proposition 3c: When A uses an arena Y as a gambit by withdrawing resources, the greater the market stake is of B in arena Y, the more capable and committed B will feel to this arena—hence, (1) the more likely B is to divert resources into arena Y and (2) the greater the amount of resources B will divert into this arena.

Proposition 3d: When A uses an arena Y as a gambit by withdrawing resources, the closer the simultaneity is of A's redeployment of resources from

Y to X, the more visible and credible the gambit will be—hence, (1) the more likely B is to divert resources into arena Y, (2) the greater the amount of resources B will divert into arena Y, and (3) the more rapid the convergence will be to a new mutual forbearance structure.

Proposition 3e: When A uses an arena Y as a gambit by withdrawing resources, the greater A's market stake is in arena X, the more capable and committed B will feel in arena Y once A diverts resources to X—hence, (1) the more likely B is to divert resources into arena Y, (2) the greater the amount of resources B will divert into arena Y, and (3) the more rapid the convergence will be to a new mutual forbearance structure.

Proposition 3f: When A uses an arena Y as a gambit by withdrawing resources, the greater A's competitive strength is in arena X, the more capable and committed A will appear to B once A redeploys resources to X—hence, (1) the more likely B is to divert resources into arena Y and (2) the greater the amount of resources B will divert into this arena.

Proposition 3g: When A uses an arena Y as a gambit by withdrawing resources, the greater A's commitment is of new resources to arena X, the greater A's commitment to X appears and the greater the awareness of B will be—hence, (1) the more likely B is to divert resources into arena Y and (2) the greater the amount of resources B will divert into this arena.

Combinations of Stratagems

The three stratagems of thrust, feint, and gambit can be combined into more complex strategic diversion moves. For instance, the thrust can be combined with the feint or the gambit. In one fascinating case Philip Morris used combined thrusts and feints to recapture a sphere of influence in one arena and to position the firm for capturing a dominant sphere-of-influence posi-

tion in another arena. These moves came to be known as the "Marlboro Wars" (*The Economist*, 1995).

In the early 1990s R. J. Reynolds (RJR) was using discount and low-price brands to erode total market share for premium brand cigarettes in the United States. Philip Morris had seen its leading premium brand's (Marlboro's) share of the U.S. market erode. On April 2, 1993 ("Marlboro Friday"), Philip Morris executed a thrust by announcing a 20 percent price reduction on Marlboro in the United States. Two weeks later, instead of cutting back on advertising, Philip Morris increased it substantially. RJR responded by matching prices and boosting advertising in the United States (Sellers, 1997).

Although the cost was great, the price-cutting thrust allowed Philip Morris to recapture share (an indicator of sphere of influence) that had been lost to discount brands (Gornov & Malyukov, 1993). When the cut-price sale of leading discounter American Tobacco Company to British American Tobacco (*The Economist*, 1995) made it look like the discounting wars would never end, the need for a new sphere-of-influence arrangement in the United States became clear. RJR made the first move. In November 1993 the company announced a 10 percent increase in U.S. prices for its premium brands. Within 3 days, Philip Morris increased the price of Marlboro by the same amount (*Winston-Salem Journal*, 1993). RJR had, in effect, signaled for a truce, and a new sphere of influence was established, leaving Marlboro with a 30 percent share of the U.S. market at a compromise price point. The thrust, in other words, accomplished its purpose.

This thrust in the United States also had many of the qualities of a feint in the global game. Philip Morris could afford to incur losses in the United States, but RJR could not—an illustration of the importance of heterogeneous resource endowments. Prior to the Marlboro Wars, RJR had been in the process of establishing a strong position in cigarettes in Eastern Europe, where, as of 1994, about 700 billion cigarettes were sold per year and sales growth was rapid. At the time, the United States market was roughly 500 billion cigarettes, representing a 15 percent decline over the previous decade. Defending RJR premium brands, such as Winston and Camel, in the United States diverted resources that the firm could otherwise have used to continue

building a sphere of influence in Eastern Europe.

By the end of 1993, RJR had let 10 percent of its U.S. workforce go. Philip Morris, in contrast, was flourishing, completing factories in Krasnodor and Volna (Gornov & Malyukov, 1993) and St. Petersburg (*Capital Times*, 1992); continuing its 3-year plan for acquisitions of other Russian factories (Naryshkina, 1997); and investing \$800 million in acquisitions and joint ventures with local cigarette companies in Russia, Lithuania, Kazakhstan, Ukraine, Poland, Hungary, the Czech Republic, and the former East Germany (Levin, 1994). Thus, while RJR diverted resources to support its eroding sphere of influence in the U.S. arena, Philip Morris was building its sphere of influence in the less litigious and higher-growth Eastern European arena.

The examples and propositions we have developed demonstrate that it is possible to use the concept of strategic resource diversion to extend corporate strategy theory and to integrate it with competitive rivalry theory. The strategic resource diversion construct addresses the issue of how competitive environments (and the competitive selection processes associated with them) can be shaped by the firm's resource allocation decisions. We turn next to a discussion of the implications for theory and research and offer some ideas for the future.

DISCUSSION

We believe the argument developed here has the potential for future theory building in both the corporate strategy and multiple-point competition domains.

Implications

Competitive intelligence and private information. In a world of perfect information, there would be no possibility of resource diversion, because all players would be equally well informed regarding the cost and quality structures of rivals. The more a firm knows about competitors' cost functions and the less competitors know about the firm, the more susceptible the competitors are to the strategic use of thrusts, feints, and gambits to reshape spheres of influence.

The practical challenge is to understand how firms can create and shape asymmetry of infor-

mation and how they can use unequal information to build and defend spheres of influence. This is increasingly a concern wherever multiple forces interact to reduce and eliminate boundaries (Victor & Stephens, 1994). Although supporting such currently popular arrangements as alliances, joint ventures, and standards bodies may improve position in one arena, a firm runs the risk of exposing crucial competitive information that detracts from its position as a whole.

Another consideration is that if private information has value in multiple-point competition, there may be competitive value in being privately owned. Privately held firms are in a far better position to keep their positions and intentions to themselves. This has potentially important implications for how the firm views agency and transaction costs. Aside from motivation and control considerations (Eisenhardt, 1989), publicly owned firms have to deal with the influence of corporate governance on competitive strategy. For example, if it is in the interest of owners to pursue strategies to establish long-lasting spheres of influence, but if the actions required to do so are expensive in the near term, the move may not meet the approval of all stakeholders.

Further, it may be easier to preserve private information by organizing as a hierarchical bureaucracy and more difficult to do so by organizing along market lines. In a classic bureaucracy each unit of the organization is required to know only the information that is important to the functioning of the unit and that permits it to coordinate with other units. How it all comes together and what this means is information available only to those at senior levels (Burns & Stalker, 1966). Market transactions, in contrast, can require more explicit information sharing, particularly when the transactions are cooperative and difficult to codify, as in strategic alliances or integrated supply relationships. This fact suggests that firms weighing the economics of using one or another form of organization and control should consider the costs of competitive leakage and truncation of competitive advantage.

Order-of-entry and deterrence effects. The constructs we have developed here offer new vantage points from which to assess the effects of mutual forbearance and order of entry. By achieving a better understanding of competition

across multiple markets, scholars can anticipate when and why firms take actions that, when viewed from a single-market perspective, do not make sense. Further, by studying the time lapses between competitive moves with a resource diversion aspect and competitors' responses, we may better understand hypercompetitive phenomena, such as competitive escalation and attempted deterrence (D'Aveni, 1994).

Extension to other stakeholders in multiple markets. In this article we have focused on attempts to enhance sphere-of-influence positions against competitors in multiple markets. The logic can also be applied to the resource allocation decisions made by stakeholders with whom a firm is interdependent. A firm may seek to divert the resources of suppliers or distributors in ways that suit itself—for instance, by causing suppliers or distributors to devote more (or better) resources to its own strategic priorities. In what was essentially a feint that backfired, a major purchaser of plastics for use in disposable diapers in the 1990s caused its suppliers to divert resources into the "green" arena by demanding that they develop technology and processes for environment-friendly materials. When the diaper firm's subsequent purchases were less than suppliers had expected, they resented the resource diversion bitterly and saw the firm's move as a public relations ploy to demonstrate sensitivity and commitment to environmental impacts. In this instance the resource diversion may have a destabilizing supply-chain effect—a potentially fruitful area for further theoretical development.⁷

Dark sides. Resource diversion is an interesting and provocative concept, but its possible effects are not unambiguously positive. The ethical dilemmas of a strategy that relies to some extent on guile, subterfuge, and manipulation are obvious. Such strategies may have a human cost that has, to date, received relatively little attention in discussions of multiple-point competition.

For instance, if the appearance of commitment is important to the success of such moves as gambits and feints, it may actually be in the best interest of the company not to reveal its strategy, even to the business-level executives

⁷ We thank an anonymous reviewer for this suggestion.

in charge. Because executives' pay and career incentives may not be linked to corporate-level results, they may inadvertently be taking on risks they are unaware of. Further, their ignorance of the strategy will make it that much more difficult to get the intrafirm coordination required to execute it smoothly. Future research could fruitfully explore the ways in which firms seeking to create a resource diversion strategy can address the very real concerns of risk to individuals and the management of failure by senior executives (March & Shapira, 1987).

Empirical research. Naturally, empirical examination of the propositions presented in this article would be desirable. This might perhaps begin with more case studies like those we have described here. Simulations or experiments along the lines used by Bendor et al. (1991) in studying Prisoners' Dilemma situations might be useful in that they would allow scholars to control for "noise" and to model competitive interchanges.

Multiple-player interactions. Our focus here has been on two players. The basic framework, however, eventually can be extended to multiple players, allowing for more elaborate and extended forms of competitive resource diversion. Using combinations of thrusts, feints, and gambits on multiple fronts and at different times, an aggressive player might be able to redirect the resources of multiple competitors. Conceivably, such behavior can influence the development of an entire industry. When new technologies are introduced, regulations are altered or new levels of global competition emerge, firms face the challenge of rapid and unpredictable change in spheres of influence, making the question of how to get to equilibrium even more compelling. Indeed, Prahalad and Hamel (1994) imply that initiating a process to gain "industry foresight" is a key strategic imperative.

In future research scholars might suggest ways in which competitive resource diversion influences how future spheres are established among multiple players. Moreover, better understanding players' interdependencies could lead us to a more sophisticated grasp of such incompletely understood phenomena as industries in which strong increasing returns yield advantage to early movers and essentially lock out latecomers (Arthur, 1994). The resource diversion perspective might also extend theories of inno-

vation and technological change by illuminating linkages among the establishment of standards, the competitive advantages of specific firms, and the emergence of dominant designs (Tushman & O'Reilly, 1997). Perhaps, for instance, the emergence of a dominant design can be correlated with the establishment of a relatively stable equilibrium in spheres of influence—a possibility suggesting an intersection between multiple-point competition theory and theories of technological change.

Limitations. It is also important to recognize that the concepts we have developed here do not apply outside the boundary conditions specified. This is not a strict game-theoretic formulation; we do not develop detailed issues of player identity, incentive structure, value allocations, and passage of time. We also assume that the firms in question must make tradeoffs in their allocation of resources. Having ample slack does not release them from the pressures of exercising choices in strategic resource allocation. Further, in focusing on three specific kinds of competitive response, we do not mean to suggest that these represent an exhaustive list. Indeed, there could be many permutations of these basic moves. Rather, we chose to focus on these basic moves in the hope that future research would elaborate other alternatives and refinements.

Conclusion: Corporate Strategy Under High Levels of Uncertainty

One of our objectives has been to extend the theory of multiple-point corporate strategy in a manner that explicitly recognizes increased uncertainty and hypercompetition. We have suggested that, under highly uncertain conditions, periods of disequilibrium in spheres of influence will now and again occur. Whenever a firm makes a strategic move that offers increased information about the true capabilities of competitors or that might allow capturing a better position in a new or different equilibrium, a period of disequilibrium can occur and interfere with mutually forbearing behavior.

We believe our view potentially enhances theory and research in three ways. First, the article suggests that failing to include the competitive perspective in assessing a firm's resource allocation behavior can lead to an incomplete understanding of its motivations and objectives.

We have explicitly recognized the competitive dimension of multiple-market corporate strategy and linked this with the long-standing concern in the literature for efficient resource allocation. To our knowledge, our work represents the first systematic attempt to take competitive interactions and link them to specific allocation patterns. The essence of our argument is that firms' resource allocations are driven not only by the way in which divisions and businesses position their requirements (Bower, 1970) but also by specific actions of competitors the firm encounters over time in multiple markets.

This brings us to the second theoretical contribution, which is to develop the resource diversion construct. The point here is that strategists might use their own resource allocations to influence the way in which rivals allocate their resources. This idea has some nonintuitive implications relative to a conventional efficient-allocation concept of corporate strategy. A firm might, for instance, make significant investments in products or markets in which it has no particular positional or resource advantage because it is motivated by the potential for gaining leverage over a competitor. Similarly, a firm might exit otherwise attractive markets, hoping to get competitors to enter and reduce competitive attention in its target markets. A firm also might hold on to positions in products or markets, neither investing in them nor exiting them, primarily for their potential use in sorting out future sphere-of-influence negotiations. Such positions might more appropriately be assessed as options on future competitive interchange than as business units with a rent-generating mission (Bowman & Hurry, 1993).

As a third extension of these ideas, we have specified three stratagems that firms might employ to achieve a resource diversion effect on competitors. We have suggested how, in a two-arena, two-player situation, the diversion effect is influenced by the competitive strength and market stake of both aggressor and responder. This has allowed us to develop propositions that are amenable to empirical specification and testing. As a step in that direction, we have provided case illustrations from several industries, in which existing spheres of influence were thrown into disarray. In each illustration, we have shown how firms diverted the resources of competitors by means of thrusts, feints, and gambits in

order to recapture or establish a better sphere of influence.

Corporate Strategy Under Uncertainty

We began this inquiry by considering what the advent of increasing competition and uncertainty might imply for the allocation of corporate resources. We were particularly intrigued by the question of how firms might gain strategic initiative when competing with multiple players in multiple products and markets. The opportunity for taking initiative through strategic resource diversion, we reflected, arises when some disruption of existing spheres of influence interferes with mutual forbearance. Under such circumstances, and in the absence of information about the relative cost structures and aspirations of their rivals, firms must formulate strategies. Engaging in the moves we call thrusts, feints, and gambits becomes more attractive because of the potential not only to shift the sphere of influence but also to reveal better information. In developing probabilistic propositions for how such moves are likely to influence the resource allocation behavior of rivals, our hope is that we have shed a useful light upon phenomena that are likely to assume increasing importance in the "new competitive landscape" (Bettis & Hitt, 1995).

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