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Market-Oriented Management in Global Markets

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The Effect of Globalization on the Market Process

Globalization can be understood as a process involving the expansion of the international division of labor. It is above all concerned with two domains: added value and sales. Through globalization, the possibilities for organizing added value are expanded, as are sales possibilities and the number of potential markets.

Globalization is not a process open to discussion. Rather, it is a fact that companies have to deal with if they are to remain competitive. Political decision making in most countries and technological progress are the driving forces behind globalization. One of the central insights gained from the great depressions of the 1920s and 1930s is that sealing off national economic areas with a policy of protectionism is no suitable response to economic problems. To the contrary: at the time, that generated stagnation and inefficiency. For this reason, most industrial countries and organizations such as the World Bank and the International Monetary Fund have committed themselves to a policy of maintaining and encouraging open domestic economies. In this framework, they have worked to do away with protectionism and reduce trade barriers. The lowering of import duties over recent years can be seen as a reflection of these policies.

But the consistent realization of an ideology of free trade is only possible because of technological advances. It is the case that intensified international division of labor does lead to a considerable rise in productivity, and with that to a lowering of production costs. Nevertheless, advantages in the latter area can be quickly balanced off – indeed even overcompensated for – by the heightened need for coordination at work in cross-border cooperation. The costs of such coordination (for example, the search for partners and their evaluation; negotiation and communication; adaptation and oversight of performance; realization of demands) are designated as transaction costs. They are just as real as production costs, even though their origins seem less tangible.

Over recent years, precisely transaction costs have fallen sharply as a result of technological progress. Performance advance in the information and communication technologies together with sinking costs for transport have allowed an international labor division of previously unimaginable scope. The cost of sea shipping alone has plummeted to a tenth of what it was before (see box below). The demand for transport capacity is so large that in specific areas it has caused bottlenecks and even increased prices.

Bringing Technology to Market. Olaf Plötner and Robert E. Spekman
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ISBN 978-3-527-50270-7

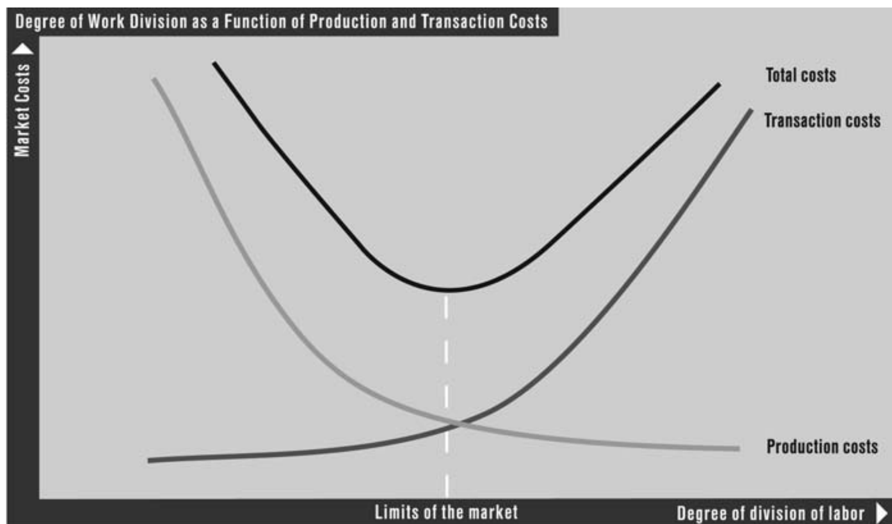

Fig. 1: Degree of Work Division as a Function of Production and Transaction Cost

Sinking fuel prices: Container ships as an example

Hardly any other branch of industry has profited from globalization as much as shipping. The shipping companies have been reporting record profits, the harbors record handling; financial sources for shipping such as banks are chartering out container giants for record sums; and the order books of the Asian dockyards are full. The worldwide fleet has nearly doubled since 1996, and its container capacity has expanded enormously. Now many of the giant ships cannot even pass through the Panama Canal.

Meanwhile nearly everything is transported with containers: Dutch tulip bulbs are shipped to New Zealand, crabs from the North Sea are shipped to Asia, and in Russia wood logs are automatically cut to container dimensions. The enormous growth in transport space has been made necessary by the increasingly networked economy and worldwide division of labor. And the prognosis is for a further increase in world trade – although the world's economy is stagnating.

The container ships play a decisive role in this boom in world trade. This is because of the lowered costs of transport, made possible through the growing capacity of the ships. These costs no longer carry much weight in production considerations. When for instance 15,000 bottles of Australian beer are shipped to Germany in a container, the cost amounts to less than five cents per bottle. Twenty years ago, the average quota of sea transport costs was around ten percent; today it is only around one percent. This is what makes the division of labor possible, since the cost advantage of pro-

ducing goods in China, for example, only holds when transport is cheap. Container usage has been increased by China becoming a global factory and a serious exporter in its own right (in the past decade exports have quintupled). The exchange of goods is now taking place in both directions, no longer only from the Western industrial countries to Asia. This development has itself encouraged a demand for larger ships, the transport costs thus remaining low or sinking further, which in turn has a catalyzing effect on world trade.[1]

The increasing labor division and entwining of performance on an international level becomes apparent in a comparison of the growth of worldwide production with the growth of worldwide trade. The growth rates for trade exceed those for production by a wide margin (see fig. 2).

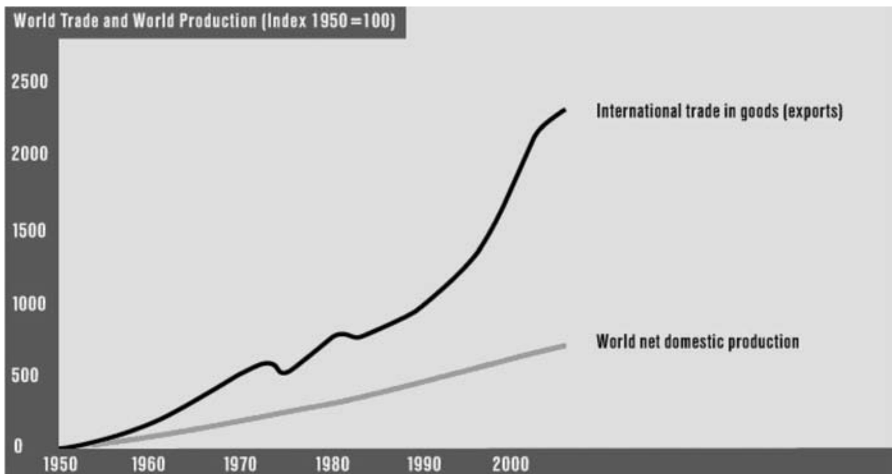

Fig. 2: World Trade and World Production (index 1950 = 100)[2]
Source: WTO, International Trade Statistics 2001

For individual companies, the expanded markets resulting from globalization have generated both risks and opportunities. New markets offer additional sales possibilities. At the same time the intensity of competition increases. This situation creates considerable challenges:

- The firms have to recognize the opportunities and risks of the expanded *market outlets*. New customers, but also new competitors in new or traditional markets, are dramatically altering the competitive situation. The company's search for its own position in an internationally unfolding marketing and competitive process stands here in the foreground. In this context of global competition, correctly evaluating customer problems has taken on an importance as great as that which it has had in domestic markets.

- Globally competing firms are being forced to fundamentally reshape their *value chain*. The challenge lies in the coordination of the production process across national borders. The following questions are pertinent here: What should the company make itself and what should it acquire elsewhere (make-or-buy)? From whom and how should this latter category of goods and services be acquired? How should both the high rate of R&D investment tied to technological advances and the high fixed-cost blocks be dealt with? How can scale economies be achieved? And how should the firm develop its own performance potential and resources? As core areas of the firm, management and the sales force – considered later in this book – are closely tied to this last question.
- But challenges emerge for a company not only in relation to target markets and arranging its own resources. To a large degree, company success depends on the rules that the marketing process follows. Recognizing both these rules (laws, regulations, and so forth) and developmental trends allows quick adaptation to the new developments, together with influencing the rules to one's own advantage.

Competitive Advantages in Global Markets

Definition of Competitive Advantages

All three of the above considerations – customers, resources, and environment – have an influence on whether a company can build up competitive advantages in global markets. Such advantages are present when two conditions are fulfilled:

In the first place, a positive cost-benefit relationship must exist from the perspective of each of the participating transaction partners.

In the second place, each particular cost-benefit bundle (each set) has to be perceived as superior to alternative choices.

This describes a first essential element of a competitive advantage. A second element involves the costs of a supplier A as compared to a competitor AC.[3] A relative cost advantage can be described as the difference between the cost of sales of supplier A and those of the relevant supplier AC.

A favorable cost position points to the superiority of supplier A. Although suppliers' costs do not necessarily have anything to do with the prices that customers pay – in many cases customers are unaware of these costs – an advantageous relative cost position offers substantial benefits. Through the higher productivity, the suppliers can also hand the cost advantage down to their customers in the form of lower prices, thus raising the customers' net benefit. An advantage of supplier A over competitor AC can be defined as follows:

Net benefit difference$^{A/AC}$ of the purchaser in favor of competitor (supplier)^{A} + cost difference $^{A/AC}$ of supplier^{A} = competitive advantage A/AC of supplier A

In this way the competitive advantage is a two-dimensional quantity whose one dimension is defined by effectivity (net benefit difference) and whose other dimension is defined by efficiency (cost advantage).

Effectivity here represents an external measure of performance indicating the extent to which a firm does justice to the expectations and demands of its customers. The expectations do not regard a product but rather both a problem experienced by the customer and its solution, which includes solving problems of coordination. For its part, *efficiency* is an internal measure of performance allowing a depiction of the relation between output and input.[4] Effectivity and efficiency should here be understood in a broad sense. The main concern is virtually never only a product and its price but also the costs or benefits of coordination tied to a transaction.

Market Orientation as the Starting Point for Creating Competitive Advantages

Consistent market orientation represents a necessary response by firms to the increase of pressure in almost all markets in the course of globalization. At the same time, such an orientation is a precondition for creating competitive advantages. *Market orientation* simply refers to a particularly intensive focus on the market. It allows companies to produce services that solve the problems of target customers better than competitors. With their definition Narver and Slater make clear that market orientation includes an analysis of the competitors and the question of added value within the company. More precisely, they speak of "three performance components: customer orientation, competitor orientation, and interfunctional coordination; and two decision criteria: long-term focus and profitability."[5]

Three tasks for internationally operating companies can be derived from a market-oriented perspective:

(1) International firms have to examine whether their internal structures and processes are suited to offer their target customers a net benefit, and whether they can build up a defendable competitive advantage.
(2) International companies have to bring the type of coordination of the transaction with the customer into their analysis.
(3) The analysis needs to serve as a basis for ascertaining both the status quo of the company's own competitive position and the management implications for entering and handling the market.

Regarding (1): Companies distinguish themselves through company-specific structures and processes (resources). These resources determine how or whether a firm can satisfy customers' needs. A firm's share of advantageous resources is defendable – or, to use Ghemawat's term, "sticky" – when three conditions are fulfilled:[6]

The resources have to be *enduring,* hence capable of having a long-term impact. They need to be *special* in one way or another – in other words, distinguishable from factors that are usually in the picture – otherwise they would not have the potential to produce a competitive advantage. Finally, the resources must have limited *tradability.* If the resources could be traded without any problems, both sale and purchase would be easy, differences in competitive capacity thus quickly vanishing. Alongside the firm's resources, the prevailing conditions in which it operates can contribute to its success. This topic will be treated more closely below.

In an international framework, once resource advantages are present the question emerges of their transferability to new target markets. Although in recent years trade barriers and transaction costs have receded, cultural differences, for example, can represent market-entry barriers in various countries. In the international framework, consideration of the two dimensions of resource-advantage and the possibility of transferring that advantage allows a firm's first competitive positioning (see fig. 3).

Here, in each row of the matrix two results are distinguished according to whether a firm's assumed resource advantage can or cannot be transferred to

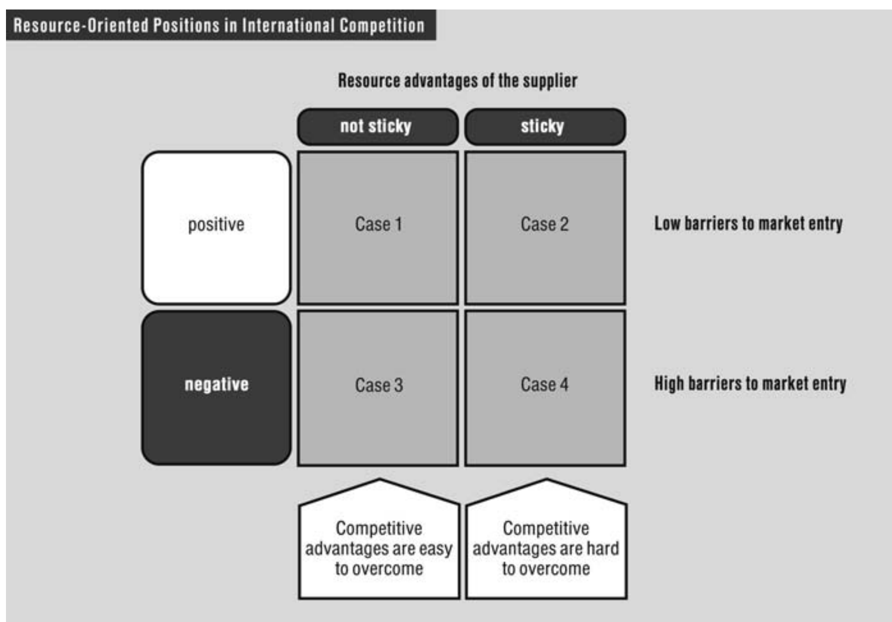

Fig. 3: Resource-Oriented Positions in International Competition

an external target market. In cases 1 and 2 that possibility is present; the barriers to market entry are thus relatively low. In cases 3 and 4 there are, to the contrary, no transferable resource advantages. In considering a potential target market, the company sees itself confronted with high barriers to market entry. The columns also contain a distinction between resource advantages that can be defended–hence are sticky–or not. Correspondingly, cases 1 and 3 refer to competitive advantages that are overcome by competing firms with relative ease. In contrast, for competitors the competitive advantages in cases 2 and 4 are only imitable with difficulty. The defensibility of competitive advantages is here not exclusively based on company resources. Special qualities of the country of origin – infrastructure, related and supportive industries, business clusters, etc.[7] – can lead to competitors with other origins only being able to imitate advantages with difficulty.

For a company that wishes to enter an external target market, case 2 is especially attractive. Market entry is here possible without problems and the company's own competitive advantage is defendable. In case 3, on the other hand, market entry is not advisable. Cases 1 and 3 do not offer a unified picture. In case 1, despite the ease of market entry, the danger exists that the prevailing competitive advantage will be quickly imitated. In case 4, despite such an advantage the company faces market-entry barriers.

Regarding (2): International firms have to bring the type of coordination of transaction with the customer into their analysis. Hence fig. 4 depicts a distinction between two types of transactions: From the customer's perspective, transactions can be either problematic or unproblematic. The source for problems here lies in the complexity or insecurity of a transaction; in insufficient knowl-

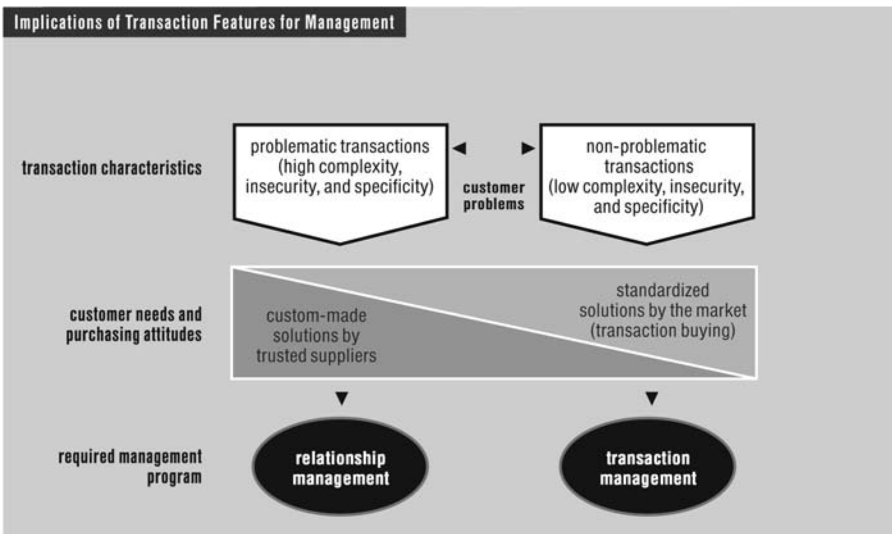

Fig. 4: Implications of Transaction Features for Management[9]
Source: Söllner: Die neue internationale labor division

edge of the product or desired solution by the customer; or again in forms of dependency towards the supplier resulting from a purchase.[8] In each of these cases, transaction costs in addition to the price of purchase – costs related to the searching, negotiating, and adjustment processes – are generated for the customer. The costs resulting from transactional problems have a profound influence on the customer's needs and purchasing attitudes. When it is possible to reduce the transaction costs by entering into a close business relationship, it can be highly efficient to limit one's own freedom of choice regarding a supplier and build close ties with one who is trustworthy. The customer will then prefer a custom-made solution from such a supplier to a standardized market solution.

We thus see that there are two types of customer and purchasing attitudes: On the one hand, there are customers who always newly arrive at their purchasing decisions, which is to say without any consideration of earlier decisions. These customers purchase products or services by means of the anonymous market (transaction buying). On the other hand, there are customers who repeatedly conduct transactions with the same business partner. In this case, marked by an inner linkage between the transactions, we can speak of relationship buying.[10]

For the supplier, highly different challenges result from transaction buying or relationship buying. Management of a business relationship poses other, higher demands than management of a discrete transaction. A business relationship cannot be built in a day; usually, it requires a considerable investment of time and resources. By developing a management program oriented around the customer's purchasing behavior, both bad investments and customer failures can be avoided (see fig. 5).

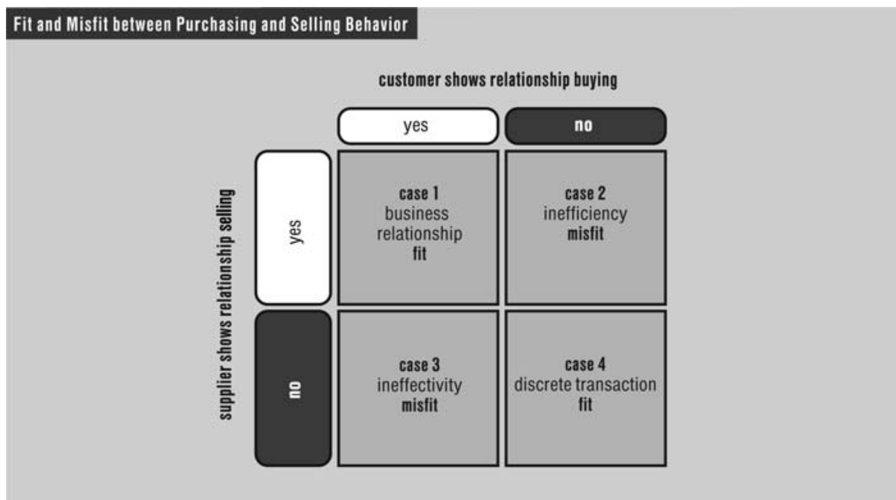

Fig. 5: Fit and Misfit between Purchasing and Selling Behavior[11]
Source: Plinke: Grundlagen des Businessbeziehungsmanagements

Altogether, four cases can be distinguished describing each particular fit or misfit between purchasing and selling behavior. In the first case – a fit – the customer desires a business relationship; that is, from the customer's perspective the transaction exhibits problematic characteristics. The supplier practices relationship selling. The behavioral program can be described as effective and efficient. It is effective because it solves the customer problem. And it is efficient because the supplier does not waste any funds. For potential competitors, the ties between supplier and customer represent a considerable (business-relationship) barrier. *Exchange barriers* result from the opportunity costs and relevant transaction costs of the exchange, together with the sunk, specific investments in the business relationship.[12]

In the second case the supplier again invests in constructing a business relationship. But this time, the customer fails to honor the effort. This misfit is inefficient for the supplier firm since it is wasting resources. In the third case the customer is in need of a trusting relationship with the supplier. This need is either not perceived or not fulfilled by the supplier, whose practical approach is thus ineffective. The fourth case again involves a fit: the two parties treat the transaction as a discrete transaction. A market transaction thus takes place that is not enriched with relational elements.

In discussing the problematics of a transaction, our focus has until now been on the customer's perspective. But in this respect problems possibly exist on the supplier's side as well, their causes the same as those found on the side of the customer. In international business, one special source of insecurity emerges from the danger that in case of a market entry, relevant knowledge will make its way to the competition. Such a danger is above all present when a firm chooses to enter the external market together with a partner, for example one from the target country itself.

Regarding (3): Management implications for market entry and development can be derived from an analysis of resource position and coordination needs.

Fig. 6 presents various conceivable positions in international competition. The perspective here is that of a firm that would like to assess its chances for entry into an external target market. The different cases addressed in the figure have far-reaching implications for the competitive process. Cases 1 to 4 refer to a fit between the attitudes of the current supplier and those of his customer. Cases 1 and 2 involve transaction buying and selling. In cases 3 and 4 supplier and customer initiate a business relationship. Hence in cases 1 and 2 an external competitor does not encounter existing business barriers. Especially the sticky resource advantage of the competitor in case 1 lays the groundwork for a lasting, defendable competitive advantage. In cases 3 and 4 the challenger is faced with relational barriers. In these cases, even with superior resources the supplier cannot count on quick success. Especially in those cases in which the challenger's resource advantage is not sticky, through the customer's exchange barriers the established supplier has a great deal of time to overcome that advantage.

Cases 5 to 8 involve misfits. In cases 5 and 6 the customer does not find the transaction problematic. Nevertheless, the established supplier has invested in developing a business relationship, thus threatening efficiency. In these cases, thanks to superior resources it should not be so difficult for a challenger to win customers in the new target market. In cases 7 und 8, the customer would gladly possess ties to selected suppliers in order to manage complex or risky transactions. But the established supplier does not know this. This constellation produces an opportunity for the challenger. At the same time, under such circumstances it may be much more difficult to achieve success. Building a business relationship demands investments and time. But above all, an external company has a starting disadvantage in comparison to an internal company; this is grounded in the special and sometimes cultural distance between supplier and consumer. Business relationships are meant to reduce insecurity in problematic transactions. Spatial proximity and mutual acquaintance is here an advantage that an external challenger may well not enjoy. This disadvantage can even outweigh the challenger's resource advantage.

From the supplier's view, the question also emerges of the extent to which acting alone is called for – or else handing certain activities to a partner. Cooperation is in any event only feasible when it does not lead to relevant knowledge being passed to a partner or a competitor. Cases 1, 3, 5, and 7, in which a defendable (sticky) advantage on the part of the challenger is present, are thus divided into sub-cases (a) and (b). Sub-case (a) suggests that competitive advantages are not endangered by cooperation, competition-relevant knowledge thus not being lost. Sub-case (b) indicates that cooperative knowledge cannot be protected, competitive disadvantages through knowledge outflow thus posing a danger in the long term.

But fig. 6 is not only suggestive in regards to a company's competitive situation. It also points to concrete recommendations for action regarding market entry and the development of international transactions (see fig. 7).

Positions in International Competition (Orientation toward Resources and Demand)

TB = Transaction buying
TS = Transaction selling
RB = Relationship buying
RS = Relationship selling

with entry into an external market, the challenger encounters a		Resource advantage of the challenger is		
		sticky		not sticky
		stickiness is not endangered by cooperation	stickiness is endangered by cooperation	
fit between the purchasing attitudes of the customer and sales attitudes of the established supplier		1a TB/TS	1b TB/TS	2 TB/TS
		3a RB/RS	3b RB/RS	4 RB/RS
misfit between the purchasing attitudes of the customer and sales attitudes of the established supplier		5a TB/RS	5b TB/RS	6 TB/RS
		7a RB/TS	7b RB/TS	8 RB/TS

Fig. 6: Positions in International Competition
(Orientation toward Resources and Demand)

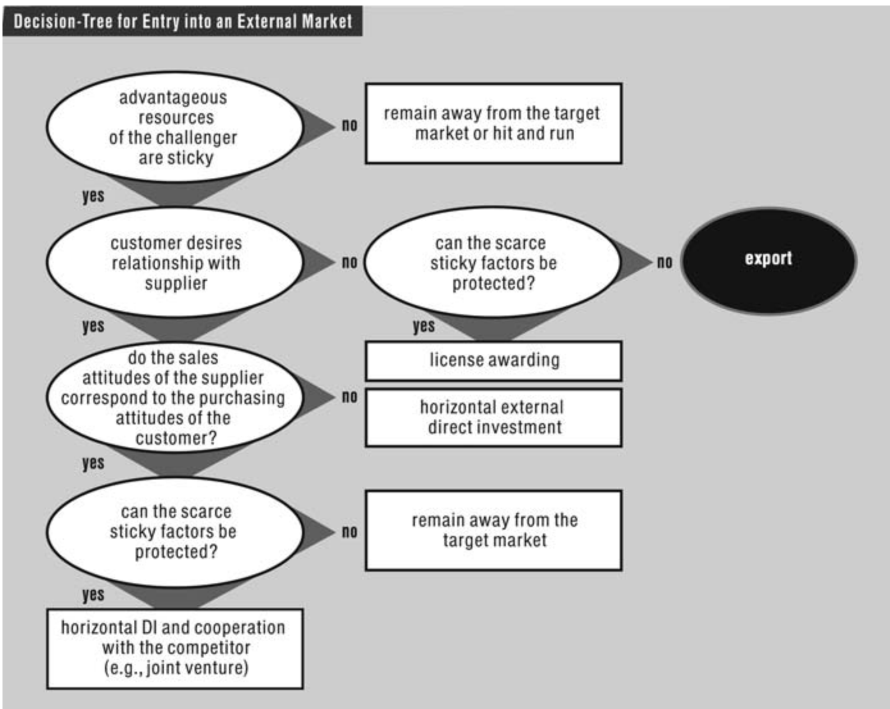

Fig. 7: Decision Tree for Entry into an External Market

From the challenger's perspective the first thing to ask is whether the advantageous resources that are available are also defendable; if they are not so, the expensive process of market entry could in any case not be considered on account of the danger of imitation. The message for the challenger then amounts to: stay away from the target market or embrace hit-and-run policies – which is to say, only enter the market when a faster profit is feasible and withdraw when the competition position worsens through imitation or another factor. To be sure, the possibility of quick market entry and exit is only present in those cases where the customer considers the transaction unproblematic.

If the challenger's resources are sticky, both the form of market entry and the future international labor division depends in a decisive way on the purchasing attitude of the customer. When a transactional attitude is apparent, the export business and license awarding are the two basic forms of market entry that come into question. *Export* here refers to the distribution of goods manufactured in a firm's home country in external target markets.

An export business, in the sense of the above-described transactional typology, is a type of business characterized by a lack of transactional problems from the customer's perspective, while from the supplier's perspective keeping control of the transaction seems called for. Since the customer does not need a close business relation, it is not necessary to be present on site and to try for

close ties. Flexible market entry through export thus represents an interesting option for the challenger. It is markedly less risky and expensive than direct foreign investment while nevertheless fulfilling customers' needs. It produces added value in the challenger's country. As mentioned, an alternative that can be considered is awarding a license to a firm in the target country. Licensing is here to be understood as a contractual agreement between an internal license supplier and an external licensed party, according to which the latter is furnished with the disposition rights over intangible assets for a specified period.

Licensing as a type of business transaction derived from a theoretical referential frame should be separated from the simple licensing process. Like the export business, the licensing business is distinguished by the customer in the transaction *not observing any significant transactional problems*. For the customer's sense of the problem, a discrete market transaction is thus sufficient. But whether this approach is feasible depends on whether the defensibility of the competitive advantage is diminished in any way by the award of the license. No damaging loss of control over added value activities by the challenger may result from the license award. At the same time the product or service has to be naturally suitable for the licensing.

If, on the other hand, the customers in the target segment show a relational purchasing attitude, the next question emerging for the challenger is whether these customers already have business relations with suppliers. If that is not the case, suppliers have to direct their efforts at building up business relations. But this is hardly possible through market entry per export. What is here in question is above all the transactional type of foreign direct investment. Direct investments are cross-border investments aimed at an enduring influence on a company in another land.[13] Spatial proximity to the customer must be considered an important condition for relationship selling. Through a defendable resource advantage and the fact that the established suppliers have not yet developed business relations with the target customers, direct investment offers the challenger a possibility of successful market entry.

The case is completely different when target customers are already tied to a business relationship. Here the challenger cannot count on fast success. Even with market entry through direct investment, the customers are not ready to abandon the existing business relationship. To this extent, the question arises of whether a form of horizontal cooperation with the competitor is conceivable, for instance in the form of a joint venture. An international joint venture is an enterprise steered by two or more partners, with at least one of the partners settled abroad. Usually the participating parties found a new enterprise (e.g., in the form of a corporate entity); resources – especially capital – together with personnel and knowledge are here invested from both sides,[14] the suppliers having control over both superior resources and access to customers. For both cooperative partners, this approach is not without risks. External challengers will only be prepared to cooperate when they can protect their superior knowledge or resources. On the other hand, established suppliers will take the dan-

ger of customer abandonment into account. If cooperation between the competitors does not emerge, to the extent that a direct investment is not undertaken because of the engagement's uncertain result, a decision by the challenger against market entry is to be recommended.

The Role of a Company's Environment

The competitive capacity of a firm does not only depend on factors that it itself can determine. According to Porter very specific national conditions either strengthen or weaken its innovative capacity. The four essential conditions have been summarized in Porter's *diamond model*:

Factor conditions here denote a country's endowment with production factors. Above all so-called advanced factors, for instance knowledge, are what can form the basis for defendable competitive advantage.

Demand conditions describe the state of domestic demand for a product or service in the industrial sector. Notably, market size and the level of domestic customer aspirations influence the capacity for international competition. In a large domestic market, particularly demanding customers render an enterprise competitively capable on an international level.

Related and supportive industries are supplier or adjacent industries whose presence or absence determines a firm's competitive capacity. In this context, an important role is ascribed to the existence of company networks (clusters).

The rubric of *company strategy, structure, and competition* denotes country-specific and industry-specific management structures, work models, types of attitude, business goals, and various management ideologies. These can either promote or hinder an industry's competitive capacity. The presence of domes-

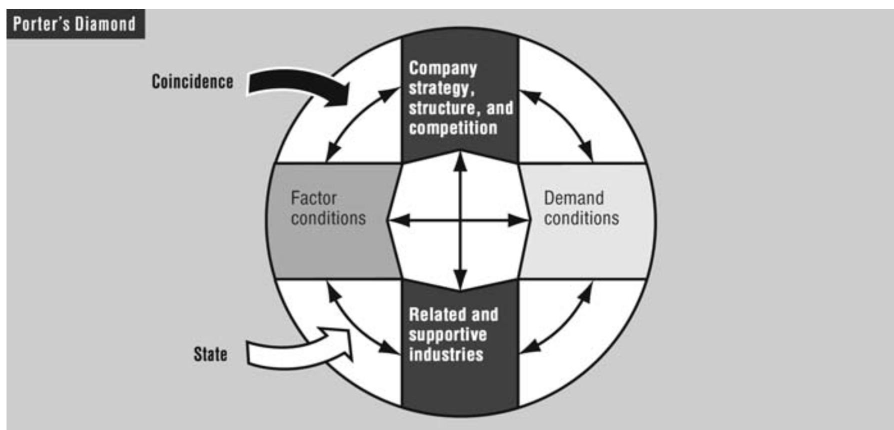

Fig. 8: Porter's Diamond[15]
Source: Porter: The Competitive Advantage of Nations

tic competition improves a firm's competitive capacity in international markets.

According to Porter, the components of international competitive capacity are not mutually isolated but rather have to support each other in order to have a positive impact. In the diamond model, two additional factors have an influence: coincidence and the state. While coincidental discoveries, crises, and other such phenomena can always have an influence on the competition process, it is above all the state that makes its mark on the diamond's positive and negative features.

By articulating both formal and informal rules, the state, together with supraregional federations such as the European Union, has considerable influence on the market process, confronting firms with two serious challenges:

- the need to analyze the extent to which their own activities and interests are affected by the *existing* rules.
- the need to analyze the extent to which their operations can be affected by potential *changes* to the rules.

Strategies for both adapting to the rules and developing (or helping to develop) them are then formulated on the basis of this analysis.

In principle, information requirements can be structured according to which added-value activities are affected by which rules. When it comes to the institutional environment, the question of the rules to be applied can be raised in relation to different activity categories (examples):

- purchasing resources;
- the production process;
- the relationship with customers (guarantees, product liability, etc.);
- the use of a product by the customer and hence customer attitudes;
- the financing of activities and projects;
- the hiring or dismissal of employees;
- the interaction between employers and employees;
- developing innovations;
- operational and organizational structure.

In relation to each such category, both formal and informal rules are in play. Information requirements take concrete form in a matrix comprising the added value activities on the one hand, the various formal and informal rules on the other hand (see fig. 9). Beyond this, rules also have a role not related to concrete added value activities but that nonetheless can have relevance for a company: for instance, various approaches allowing successful daily interaction between employees working in an external environment.

It becomes clear that for internationally active firms, there is an extremely high need for information regarding the institutional environment. Practically

Determination of Information Requirements

added-value activities	formal rules				informal rules		
	national rules	EU rules	WTO rules	...	cultural rules	moral norms, industry practice, etc.	...
purchasing							
production							
sales							
personal							
financing							
...							
activity – overlapping relevance							
...							

Fig. 9: Determination of Information Requirements

all activities in which value is meant to be produced for an ultimate buyer are influenced by rules from the institutional environment.

The degree of informational requirements is expanded by the fact that, for many decisions, simply analyzing the concrete institutional environment of a certain country or region is insufficient. For a company to make good decisions – which is to say decisions leading to defendable competitive advantages – comparisons between various rule choices are often needed. Hence a firm oriented toward biotechnical or chemical research needs to investigate the rules for research and research support in various locations, in order to then decide on one location.

At the same time, companies cannot afford to reduce their analysis of the institutional environment to the present. The formal and informal rules have too great an influence on a firm's success and competitive capacity. For this reason, it is important to identify the catalysts for changes in that environment, in order to then possibly develop the firm's own activities. Identifying these catalysts can help the firm

- have an influence on existing rules and possibly induce changes;
- recognize a process of rule-change in a timely fashion and either adapt the company's approach to the new conditions or help develop the process.

Three catalysts here take center stage: the *themes* a society is concerned with and that can be reflected in an institutional environment; *interest groups* and *interested subjects* – those affected by the themes; and the *decision process* through which themes develop into institutions.[16] In many cases, problems that have entered a public opinion-making process are resolved in the form of ordinances, laws, and guidelines. But alongside them are rules that have not been implemented in an institutionally formal way. Among these are, for

example, certain codices that branches assign themselves, or else voluntary company goals or self-limitations. Even privately instituted arrangements for arbitration and corresponding procedural rules can lead to decisions over a theme.

Themes

Themes are circumstances affecting individuals in a society and in relation to which a need for decision, action, or regulation exists. Themes can be complex in nature. Identifying present and future themes here emerges as a very difficult process. In order to punctually recognize a new Zeitgeist, highly sensitive and far-reaching antennas are needed. It is also the case that such changes in cultural rules sometimes unfold over very long time spans, so that firms themselves have time to adapt their basic approach to the new rules. They receive support here from "trend scouts," institutions devoted to mapping future changes, and so forth.

On the other hand there are themes that develop within a society and that very quickly gain relevance for a firm's activities, despite initially having nothing to do with its direct business. In the course of time, these themes can themselves develop into highly concrete rules helping to determine a firm's competitive success or failure. The automobile industry, for example, is affected by many problems: recycling of materials, safety, recall episodes, limited oil reserves, the greenhouse effect, site competition. It is clear that a list of such themes – either already topical or that may well become so – could be drawn up for every firm and every branch. The range of potential catalysts behind the change of themes is very broad, extending for example from political changes (through elections, new ideas, etc.); technological progress (e.g., a lowering of communication and transaction costs); cultural changes (e.g., regarding the significance of environmental protection or the approach to health risks). The fact that such factors lead to changes in the social themes is tied above all to their touching on or altering human interests.

Interest Groups and Interested Subjects

Treatment of each of the perceived themes is strongly stamped by the interest in it by the participating parties. Depending on the theme, both they and their interests vary sharply from branch to branch and from firm to firm. But they do share one characteristic: the affected interest groups demand a regulation of themes in harmony with their interests. Interest groups are defined by a common interest (material or ideal) of the group members, with a fixed organizational structure not being absolutely necessary.[17]

In order to realize their demands, interest groups use instruments such as lobbying and other forms of political influence. The intensity of the influence

here depends on the consequences that deciding on a theme will have for one or several players.

But it is not only important for these groups to know and represent their own interests; at the same time it is important for them to assess the extent to which other interest groups represent their particular – perhaps divergent – interests. What is at stake in this respect are both organized and non-organized interests. For example, in the ongoing debate over the danger and control of fine particles, there are many interest groups playing a role for firms in the auto industry. The following groups can serve as examples; each is distinguished by a particular view of a theme that can be traced back to the interests of the individuals organized within it.

Organized Interest Groups

The AAA
The AFL-CIO
The petroleum industry
Nature-protection and related groups (e.g., Greenpeace)
Political parties
Automobile manufacturers

Non-organized Interest Groups

Consumers
Citizens
Taxpayers

The Decision Process and its Potential Results

When a theme develops and sufficient pressure exists from interest groups towards deciding on the theme, then this decision will result in attitude-governing rules. This process can affect legislative authorities (e.g., the German Bundestag or the European Parliament), national and cross-border judicial authorities, and the executive, along with international organizations such as the EU and World Trade Organization.

Each organization participating in deciding on themes has its own rules. Hence for passing laws in Germany there is a system of interplay between the Bundestag and Bundesrat paving the way from opening initiative to final legislation. Analyzing the procedures at work here is an important task for companies – especially since the procedures offer the possibility to be heard and to take part in decisions.

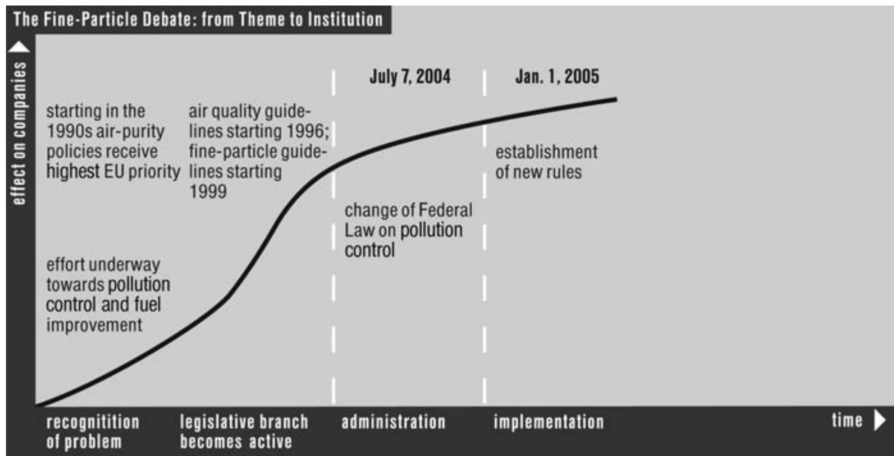

Fig. 10: The Fine-Particle Debate: from Theme to Institution

The process of a theme's concretizing into binding national rules can be clarified with a look at the political-economic debate over fine particles. The body of rules dealing with the fine-particle issue has a preliminary history within which the debate gradually emerged. Parallel to it, the fine-particle *theme* had a growing impact on relevant firms in the auto industry. Fig. 10 shows how the theme gradually emerged as an influential factor within the industry.[18]

During the 1990s, the theme of air purity gradually gained importance in public discussion. As a result of the discussion, the EU's legislative branch took up the theme at the end of the decade and issued appropriate guidelines. This created pressure on member states of the EU to pass national legislation. In 2004 relevant legislation was initiated in Germany; this became law in January 2005.

A company has numerous options regarding how to proceed during such a decision process. These range from passive waiting and then adaptation to the new institutions, to anticipatory observation of changes in the institutional environment including a policy of helping to shape these changes. Notably, a passive observation of the changes can very much be accompanied by an active adaptation to the new rules.

In this regard, what strategy promises success cannot be determined in blanket fashion, but only through a cost-benefit comparison of the various approaches. It is thus necessary to analyze the particular costs and benefits attached to the individual options.

In relation to the potential benefits of a decision, the first question to emerge involves the consequences of a given set of circumstances and the possibility of changing them. For international companies the consequences that are most relevant have to do with influence on sales figures and revenues. Such companies thus need to estimate changes in these performance indicators resulting

from the institutional changes. Likewise, they will need to calculate the extent to which adaptation to the new rules will lead to costs and to changes in profit.

When the choice is made to directly influence the rules, then an impact on profits can once again be expected. For example, a firm that finds itself subject to a specific tax burden can apply for relief. The costs and benefits of such influence need to be set against those of simply adapting to the existing rules. Such adaptation could, for instance, involve a shift of production to a country with a smaller tax burden.

In regards to regulating fine particles, the rule-changes to be expected became clear at a relatively early point, companies thus knowing under which rules the competition would be performing; all competitors had roughly the same time to adjust to the new rules. While some manufacturers began the mass production of soot-particle filters for diesel vehicles, others counted on the maximum limits not being reached in the European countries. Meanwhile this assessment has been proven erroneous; the competitive position of these firms has thus been negatively affected.

Responsibility in Global Competition

Strong competitive pressure has forced firms to exploit all maneuvering room for increasing effectiveness and efficiency. Within this process, their activities can unfold either according to the extant rules or with the aim of influencing the rules. In either case, conflicts can arise between economic rationality and moral behavior. Competitive capacity might thus be intensified through morally unacceptable measures such as the use of child labor – even though in certain countries such measures remain legal. By *morality* we understand the practically lived arrangement of norms and values. *Ethics* is concerned with the theoretical grounding of these norms and values; it places the reflective process above practical morals. As a branch of philosophy it studies the motives, forms, and consequences of human action and the question of what defines good and bad actions. *Economic ethics* has the goal of uniting rational economic action and ethical reason.

Karl Homann has closely considered the moral dilemmas in which many managers find themselves. In this context, he has proposed a four-quadrant scheme (see fig. 11). Within this scheme, the two axes describe the effects of a specific company action in relation to moral acceptance on the one hand, and profitability of the company on the other.

Quadrant 1 refers to a complementary relationship between moral behavior and economic success. This can be grounded in the economy's overall regulatory framework demanding and effectuating moral behavior from all competitors to the same degree, so that with observance of the rules economic damage through sanctions is absent. Or it can be grounded in a profitable "sale" of moral behavior, for instance through its effective use in publicity.

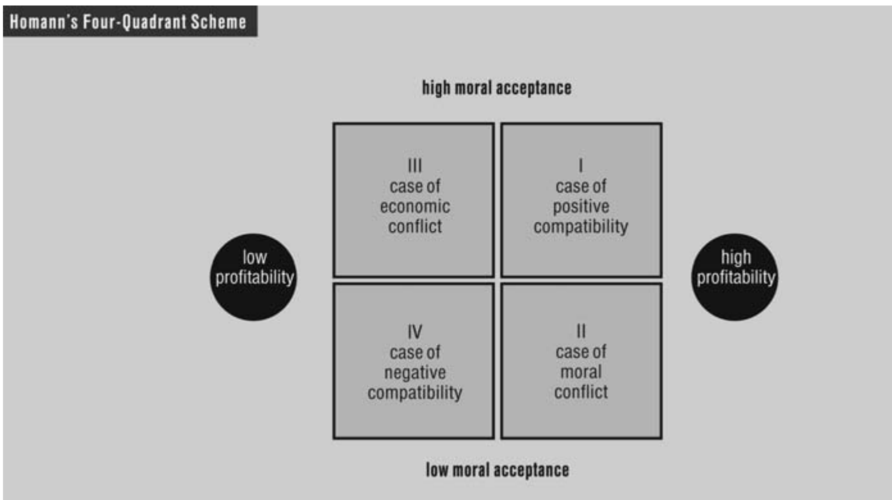

Fig. 11: Homann's Four-Quadrant Scheme[19]
Source: Homann: Marktwirtschaft und Unternehmensethik

Quadrant II refers to the case of a company's behavior not being in harmony with a society's moral ideas, even if it is legal. The company here opts for profitability and against morality. It mainly justifies this decision – to the extent that it is at all justified – with references to competitive pressure. As a response to the question of an action's moral legitimacy, phrases such as "right now we really have other problems" are symptomatic for this situation.

Like quadrant II, quadrant III refers to a conflictual relationship between profitability and moral acceptance. The basic difference is that in this case the firm has opted for morality and against profitability. Quadrant IV refers to an action that is neither morally accepted nor profitable. In this case a decision to exit the market can be expected.[20]

Homann's schema makes clear that moral behavior can be highly problematic for a company in conditions of strong competitive pressure. In this light, it is crucial to note that, in principle, a general regulatory framework consistently integrating and enforcing moral expectations can effectively counter conflicts between morality and economic rationality. Moral expectations would here be fixed as a restriction on all market participants; competition would take place in terms of moving according to the rules of the game, not through violations of moral norms. Homann's approach, inserting economic morality into the framework of general economic regulations, frees the firm from permanent justificatory pressure. Actions consistent with the regulatory framework can be considered ethical – this of course to the extent that the framework is itself in harmony with a society's moral concepts. Upon such a basis, a firm can focus on purely economic competition.

It needs to be stressed that the framework's existence does not free a firm from moral responsibility. A purely profit-oriented approach is only justified

when the general conditions do not reveal an ethical deficit. But this can hardly be assumed: the various national governments have scant possibilities to impose an effective regulatory economic order on internationally operating companies. This deficit is only partially overcome by rules formulated on the level of regional organizations and the WTO and monitoring by NGOs (Non Governmental Organization). In reality then, the conflictual situation defined by cases II and III will often prevail. As a reaction to this by the companies, Homann considers two types of strategy especially practicable: a strategy centered on competition and a strategy centered on considerations of political order.

In the competition-centered strategy, moral behavior is aimed at because those engaged in the transaction have had or develop a preference for partners with moral integrity. This preference can apply to highly varied objects: products, production, orientation toward employees, orientation toward the environment, and so forth. What is here essentially at stake is discovering profit possibilities that can be grounded in morally acceptable policies and actions. In this manner, moral and economic goals become mutually aligned.[21]

Concepts such as corporate social responsibility (CSR) should themselves be understood as reflections of competitive-centered strategy. CSR signifies ethical company behavior and, beyond the standard entrepreneurial activities, exercise of good citizenship, which is to say acceptance of communal responsibility.[22] However, implementation of such a concept can only be counted on when it is tied to economic success for the company: "No one can expect a company to accept serious economic disadvantages on grounds of moral behavior while less moral competitors pocket the profits."[23]

Even when a competition-centered strategy is not feasible, firms are not exempt from their ethical responsibility. In that case, they need to use the strategy centered on political order, referring here to the deficits in the existing regulatory framework and working on their reduction.[24] The ongoing active support for the Global Compact initiative of U.N. General Secretary Kofi Annan is an example of this alternate strategy. The initiative was presented at the World Economic Forum in Davos in 1999. Its goal is to strengthen cooperation between the United Nations, companies, and social organizations and make it useful for realizing essential U.N. objectives. To participate in the Global Compact program, companies and organizations commit themselves to act according to ten principles pertaining to human rights, labor relations, the environment, and anti-corruption. The principles, which are derived from central United Nations goals, are listed in fig. 12.

The participating firms report regularly on their progress in regards to the various realms covered in the initiative; they also publish a homepage (www.unglobalcompact.org), in order to serve as examples for other firms and to offer both NGOs and the public a chance to comment. Again, it should be stressed that if the Global Compact's rules are not generally implemented, their acceptance can itself lead to competitive disadvantages.

Principles of the Global Compact

Human Rights

Principle 1:	The support and respect of the protection of international human rights
Principle 2:	The refusal to participate or condone human rights abuses

Labor

Principle 3:	The support of freedom of association and the recognition of the right to collective bargaining
Principle 4:	The abolition of compulsory labor
Principle 5:	The abolition of child labor
Principle 6:	The elimination of discrimination in employment and occupation

Environment

Principle 7:	The implementation of a precautionary and effective program to environmental issues
Principle 8:	Initiatives that demonstrate environmental responsibility
Principle 9:	The promotion of the diffusion of environmentally friendly technologies

Anti-Corruption

Principle 10:	The promotion and adoption of initiatives to counter all forms of corruption, including extortion and bribery

Fig. 12: Principles of the Global Compact[25]
Source: United Nations, 2005

For this reason, the strategy centered on political order does not eliminate the possibility that despite actively promoting correctives to the general regulatory framework, in competition companies will display behavior that is not morally accepted. At first sight, this behavior may seem to reflect a double-sided morality. Frequently, exigencies of the competitive market process make political self-contradiction a company's only option.

Conclusion

Globalization and the disappearance of trade barriers will continue to strengthen market forces. Effective and efficient companies are rewarded with market share and profits. Inefficient companies will not be able to hold their ground competitively; they will not be able to gain any new markets and will lose those they have.

Consistent market orientation, in the sense of orientation towards both customer needs and the competition and a corresponding structuring of the entire added value chain, forms the guideline for management in global markets.

In the creation of competitive advantages, the business environment plays an essential role. National characteristics and supra-national rules (formal or informal) influence the innovative strength of companies and have an impact on the outcome of the market process.

International firms must be aware of their responsibilities towards human beings. In the long term, an exclusive orientation towards shareholder value places the free-market economic system in question.