
Do Japanese companies have a competitive strategy?

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Abstract

Responding to Michael Porter's claim that "Japanese companies rarely have a strategy", this paper argues that the competitive advantage of Japanese enterprises is not to be found in traditional practices. Rather it is due to the way these practices are upgraded and reinforced by ideological factors such as the "community of fate", as well as the formation of governance structures that cultivate the development of contextual knowledge that leads to the efficient and effective production of complex products.

Introduction

As globalization gained momentum in the 1970s and the 1980s, Japanese companies seemed to be the winners in the emerging global industries such as consumer electronics, computers, semiconductors, machine tools, and automobiles, where they challenged their US counterparts. Yet, by the early 1990s, with US companies regaining market shares, the challenge seemed to be over and Japanese companies seemed to be the losers in most global industries.

The erosion of the competitive position of the Japanese corporations has led a number of strategists to question whether they have a competitive strategy. Haslam *et al.* (1996), for instance, attribute the startling performance of the Japanese companies in the 1970s and 1980s to output expansion at home and favorable labor settlements (wages, hours of work) rather than to sustainable competitive advantages:

In the 1970s and the 1980s when the Japanese were feared competitors, they benefited structurally from a combination of low Asian wage costs and high Western prices which generated large cash surpluses as they increased their share of Western high income markets (Haslam *et al.*, 1996, p. 24).

Michael Porter is even more assertive: "Japanese companies rarely have strategies", he argues in a 1996 *Harvard Business Review* article where he addresses alternative approaches to the concept of competitive strategy:

The dangers of Japanese-style competition are now becoming easier to recognize. In the 1980s, with rivals operating far from the productivity frontier, it seemed possible to win on both cost and quality indefinitely.

In a sense, Porter is right. The success of Japan's corporations in the 1970s and the 1980s was partly based on operational effectiveness, the development of logistics that improved product quality while cutting costs at the same time, and on marginal product differentiation – policies that are transferable to other companies. Indeed, by now a number of well-known Japanese practices such as the logistic system, just-in-time, that cuts inventory costs, and the total quality system that reduces product defects, improving product quality at the same time, have become standard practices used both by Japanese and non-Japanese companies. And, as Porter argues, the Japanese "decision by consensus" system

impedes the radical choices and creativity that are a prerequisite of successful competitive strategies.

In another sense, Porter is not right. First, Japanese management practices do not remain still but are evolving over time to more subtle practices that it becomes harder for competitors to imitate. Second, Japanese competitiveness is not based just on operational logistics, but on corporate governance such as company alliances and *keiretsu* relations built on specific tangible and intangible assets that cannot be easily and entirely transferred to other companies, especially to Western companies. Arguing these propositions, the remainder of the paper is in two parts. In the second part, we refine the concept of competitive strategy as it applies to the global economy. In the third part, we examine whether the prevailing competitive policies taken by major Japanese companies are consistent with the concept of competitive strategy defined in the previous part. The paper ends with a summary and conclusions.

Competitive strategy refined

The intensification of competition in recent years has revived the interest in the concept of “sustainable competitive advantage”, i.e. in the ways a company can develop competitive strategies that cannot be imitated by the competition. Traditionally business strategists have identified three alternative forms of competition: operational effectiveness (cost and quality competition); development of different products (product competition); and an in-between strategy, market focus (focus competition). But as these strategies have by now become a standard for major competitors, business strategists have been trying to refine them into more subtle ways of competition, which cannot be easily transferred across companies. Prahalad and Hamel, for instance, argue that a company’s competitive advantage should build on “core competencies” which are far more difficult to imitate than the traditional strategies (Prahalad and Hamel, 1990). Kim and Mauborgne argue that to be sustainable, product differentiation should add real value to existing products rather than marginal alterations. Markides argues that product differentiation and focus should be “strategic”, i.e. entrepreneurial, discovering consumer trends and finding novel ways to satisfy them. Emphasizing strategic competition,

Michael Porter also argues about the importance of “entrepreneurial edge”, but he adds that differentiation and focus should be based on activities rather than products, on “deliberately choosing different activities to deliver a unique mix of value”. But how do entrepreneurs discover business opportunities? How do they decide which opportunities to pursue? How do they keep ahead of the competition?

As is the case with many discoveries, entrepreneurial discoveries are either a matter of good luck or a matter of systematic search based on integrated knowledge, i.e. knowledge that blends together technology and market information. And since good luck is not always on the same side, it is hard to argue that a company can consistently achieve sustainable competitive advantages just on the basis of luck alone. But it is not as hard to argue that systematic search, based on knowledge integration, leads to sustainable competitive advantages (Forrest, 1996; Powell and Dent-Meicallef, 1997; Ross *et al.*, 1996).

However, technology and market information is scattered both inside and outside company boundaries. Technology information, for instance, can be purchased in the market, produced internally or in co-operation with other companies, research institutes and universities. Co-operation among companies and research institutes is particularly important in the development of complex products that require extensive knowledge and expertise that cannot be found in one source. To develop a mapping system prototype, Lockheed Management & Data Systems, business unit of Lockheed Martin Corporation, formed an alliance with several companies that will develop parts of the product, including Marion Composites, GTE Government Systems Corporations, Codar Technology, MTI Technology Corporation, CalComp Technology, and Tangent Imaging Systems.

As is the case with technology information, market information can be acquired through the market, by tapping into private market research databases, or it can be gathered internally with the co-operation of the marketing and sales departments, distribution centers, and suppliers and customers. An interesting example of technology and market information integration that has led to entrepreneurial product innovation is the launching of the Super Dry beer by Asahi in the mid-1980s. In 1987, after studying a number of factors

that shape consumer demand such as, demographic trends, dietary changes, economic changes, and changes in competition, Asahi introduced a product with a new image to match consumer demand, a product that shook up the beer market in Japan. Within two years, SuperDry created an entirely new market for dry beer, raising Asahi's market share from 10.3 per cent in 1986 to 24.3 per cent by 1989. Despite the wave of product introductions by the other three domestic competitors, SuperDry success continued well into the 1990s. By discovering a new business opportunity and developing the right product to take advantage of it, Asahi had created its own rules of the game in the beer market, and managed to fend off its competitor attacks. But what does it take to integrate technology and market information?

Integrating technology and market information takes three things:

- (1) Hardware technologies, i.e. information and telecommunications hardware, such as the Internet, intranets, groupware, and videoconferencing – technologies that allow corporate members to share information and logistical support instantly.
- (2) Software technologies, i.e. managerial practices such as global teams, job rotation and transfers, and global conferences – structures that cultivate the development of multiple skills and contextual learning.
- (3) A vision and a corporate governance that supports and reinforces the development of software technologies.

But are not these factors transferable across companies?

Hardware technologies certainly are transferable across companies. Information and telecommunication networks can be purchased in the market and installed in every company. In fact, the use of hardware technologies in internal and external communication is no longer an option but a requirement for competing in a global economy. The same applies for software technologies that are also transferable across companies. Training programs, team production, and job rotation, for instance, have become standard practice in every company around the world.

What has not, and cannot, become a standard practice is the third factor, i.e. the company vision and governance structure that accommodate the deployment of hardware and software technologies for the discovery

and exploitation of new business opportunities ahead of competition: “Competitiveness depends crucially on how enterprises organize themselves, how they use and develop the human resources available to them, how they match technology and workers, and their relationship to suppliers and customers and to other firms”.

Corporate vision provides an ideology to win the enthusiastic support of members of the organization for the introduction and development of software technologies. Fair treatment, for instance, creates common feelings among the members of the company, feelings that align individual interests with those of the corporation. The same applies for corporate governance, especially corporate alliances that loosen up the traditional boundaries of formal organizations and allow corporations to create informal networks that allow the better integration of knowledge:

Management has traditionally been obsessed by control and measurement but, increasingly, the difference between success and failure is about managing relationships outside of the strict boundaries of the organization, engaging in alliances with customers, competitors and suppliers (*Manager Update*, 1996, p. 1).

Corporate vision, for instance, provides the ideological rationalization for working teams and corporate governance provides the coordination and the incentive structures that make teams operational. The same applies for job rotation. To serve its purpose, i.e. the development of contextual knowledge, members of the organization must enthusiastically support such practice, which can function efficiently only under the proper co-ordination and incentive structures.

Though it is hard to substantiate this proposition empirically, a number of studies support the importance of vision and corporate governance as sources of sustainable advantage. A sound vision creates a mutual trust among the stakeholders of the corporation and a reputation with customers and suppliers, which are nontransferable assets translating to sound corporate performance. A *Business Week* survey of 1,000 corporations confirms that a clear mission has a positive impact on the company's profit. Indeed, the survey finds that corporations with clear mission statements had an average rate of stockholder return of 16.1 per cent, while those without a mission statement had a 7.9 per cent average rate of return.

In investigating the success of Toyota Motor Company in setting up teams in its US transplants, Besser (1995) identifies two important factors, “the community of fate”, cultivated by Toyota’s vision, and the proper incentives that supported and reinforced this fate. In investigating the startling performance of minimill maker, Nucor, organizational policies such as participatory management and proper incentives are identified which, as was the case in Toyota, have created a “community of fate”, a company-specific intangible asset that other competitors could not replicate.

The creation of a “community of fate” further helps companies develop sound human resource management, which is directly related to R&D activity. In surveying 115 subsidiaries of 89 Fortune 500 companies, Martell and Carroll, for instance, find that human resource management practices are strongly correlated with subsidiary R&D activity and overall performance (Martell and Carroll, 1995).

In short, hardware and software technologies are the necessary but not the sufficient conditions for creating sustainable competitive advantages. The sufficient conditions are the vision and the governance of the corporation, especially corporate alliances, which are far more difficult to replicate than hardware and software technologies.

Transferable and non-transferable assets of Japanese corporations

The successful expansion of Japanese companies in the world economy from the late 1960s to the late 1990s has created an enormous literature that provides a variety of explanations for the success of Japanese companies. A substantial part of this literature focuses on three kinds of organizational arrangements that have given them a competitive edge against their Western counterparts:

- (1) Operational logistics such as the just-in-time inventory control method and shopfloor organization, such as teamwork, flexible floor assignments, job rotation and regular transfers to different divisions and corporate affiliates – practices that are often credited for total quality.
- (2) Corporate governance, such as the development of corporate alliances and *keiretsu* relations that allow their members to share

R&D information and develop cost-cutting techniques.

- (3) A “community of fate” environment that is based on participatory management, job security, joint consultation between labor and management, horizontal communication, team incentives, and a relatively small gap between the highest and the lowest salaries.

Of these organizational arrangements, operational logistics are about hardware technologies and software technologies that can be imitated by other companies. Corporate governance and “community of fate” are company-specific assets and, therefore, they cannot be imitated.

Transferable practices: operational logistics

In the 1970s and 1980s, Japanese companies alone practiced a number of hardware and software technologies. The just-in-time inventory control and the total quality management systems, for instance, are just two of the most often quoted practices that gave Japanese automobile companies a competitive advantage against their Western counterparts:

By transforming traditional mass production techniques and adopting continuous improvement, cross-functional teamwork, just-in-time delivery and automation where appropriate, Japanese manufacturers were able to produce cars at lower cost, in a shorter time, using less space and fewer workers (*Manager Update*, 1994, p. 1).

Yet, by the early 1990s, these practices became the standard for every automobile company around the world. In the beginning of the 1980s, for instance, Ford began to introduce teamwork, job rotation, and total quality management, followed by Chrysler, GM and several European automakers.

The automobile industry is not the only industry applying Japanese hardware and software practices to improve operational effectiveness. Under what has come to be known as re-engineering, every Western company is introducing teamwork, job rotation, and encourages work participation as ways to cut costs, improve quality, and assimilate new technology and to develop new products (*Manager Update*, 1994, p. 1).

But as US and European companies are striving to model their management operations after those of their Japanese counterparts, the Japanese themselves are moving to a

new orbit of management that includes re-engineering of products and resources rather than processes, world-class inventory systems, and “bullet train” teams:

They are redesigning products, redeploying workers, reconfiguring distribution systems, and generally retooling some of their most storied management practices, from just-in-time production to consensus decision making, from flexible manufacturing to continuous improvement.

Some companies, for instance, make products simpler with the use of standardized parts.

Mabuchi Motors, a small electric carmaker, makes 70 per cent of its products with only 20 different parts. Kyocera Corporation and Higashimaru Shoyu go even further:

The Kyocera Corporation, a technology company, has divided itself up into 800 small companies (referred to as amoebas) that expected to trade both internally and externally.

Higashimaru Shoyu, soy-sauce maker, has turned each stage in the production process into a separate profit center, telling the separate profit centers, to buy and sell parts from each other.

The company has created its own internal currency.

In short, a number of Japanese management practices, that can be classified as operational logistics, have already become standard practice around the world, so no longer constitute a competitive advantage for Japanese companies. Yet, as Western companies are catching up with these managerial practices, Japanese companies are inventing new ones that give them at least a short-term advantage over their Western counterparts. In either case, management practices are nurtured within specific organization visions and government structures that are non-transferable to alien environments.

Non-transferable practices: community of fate and governance structures

As discussed earlier, management practices are not developed in a vacuum but within corporate organizations and social environments that cannot be easily replicated. Take teamwork, job rotation, and labor transfers, for instance, that allow workers to develop contextual skills, i.e. skills that enable them to understand the entire production process, so they can come up with suggestions for introducing process and product innovations. These practices cannot be introduced overnight in a manner of managerial directives but have to be imbued in the right corporate

vision and immersed in the appropriate social values and attitudes. Teamwork, for instance, does not blend well with the individualistic corporate values prevailing in Western societies like the USA; nor do job rotation and labor transfers that are inconsistent with trade unionism. Such practices must be nurtured in a “community of fate ideology” under a proper governance structure that provides for the coordination and the incentives that turn hardware and software technologies into integrated knowledge and entrepreneurship.

Community of fate

Developed in the late 1970s by Robert Cole, the term “community of fate” refers to the feeling among employees that they all belong in the same organization, and that they will share both the successes and the failures of its operations:

Community of fate ideology refers to the feeling among employees that all employees of an organization share a similar future, that everyone in the organization will succeed or fail together (Besser, 1995, p. 383).

One of the factors that is different, for instance, between the ways Japanese companies and US companies form groups is management’s attitude towards the weak members of a group. In Japan, weak members become a challenge for the manager and their co-workers who assist them to catch up with their strong members; in the USA, weak members become the target of warnings from management and complaints from co-workers and eventually are expelled from the group and the organization (Besser, 1995). This attitude of Japanese companies is not confined to groups but it extends to corporate alliances with suppliers where companies help their weaker suppliers to come in line with their stronger suppliers, a practice that protects companies from unforeseen shortages of crucial parts, promoting innovation and product development at the same time:

Providing assistance to suppliers is a highly effective method for both helping and forcing suppliers to continuously innovate and improve to stay ahead of the competitors (Dyer and Ouchi, 1993).

In some cases, Japanese automakers would assist their US suppliers to become competitive even if those suppliers sell parts to competing automakers (Schreffler, 1997).

Another practice that cultivates the “community of fate” is participatory management,

i.e. decision by consensus and job security. Decision by consensus gives the members of the organization the opportunity to raise their opinion and concerns about issues of the workplace and even if they are not satisfied with certain decisions, it makes it less likely that they will oppose them. Job security gives the employees the feeling that, like a good family, the company stands by its members both in good and in bad times, and, therefore, they are willing to undergo certain sacrifices associated with the introduction of new technologies and management practices.

A third factor that cultivates a “community of fate” is the ongoing emphasis of Japanese companies on improving working conditions. Toyota, Nissan, and Mazda, for instance, all emphasize the importance of good working conditions; especially since, recently, it has become more difficult for them to recruit new employees. In its new factories, for instance, Toyota has tried to reduce the burden of heavy work, create a dustproof working environment, cut down on noise, and make the workplace safer (Ogasawara and Ueda, 1996).

In short, the “community common fate” is an intangible company-specific asset that cannot be easily transferred across companies. But such an asset is not built in a vacuum, but within corporate governance, which itself can be a source of competitive advantage.

Governance structures

With many scandals becoming public, Japanese governance structures are a highly controversial issue nowadays. Yet, a number of aspects of Japanese governance are often credited for the successful integration of market and technology information and the creation of sustainable competitive advantages for Japanese companies.

One aspect of Japanese corporate governance is the internationalization of research and development that allows Japanese companies to integrate market and technology information in a global market. By setting R&D facilities in Europe, for instance, and co-operating with local research institutes, Japanese companies can apply new technologies in the development of new products that meet emerging consumer demands in Europe:

The R&D carried out by Japanese MNEs in Europe embodies very contemporary elements reflecting the needs of current global competition. Thus while much of it is still market oriented its objective is to develop distinctive products for the European market as part of a global innovation strategy, rather than merely imple-

ment established products (Papanastassiou and Pearce, 1994, p. 164).

Another aspect of the Japanese governance structure is the corporate alliances and *keiretsu* relations that allow their members to integrate market and technology information (Kodama, 1995). As the 1987 MITI White Paper puts it: Japanese manufacturing industry owes its competitive advantage and strength to its subcontracting structure.

This is a view also argued in a number of academic papers (Ferguson, 1990; Kojima, 1996).

One of the advantages of Japanese subcontracting is its long-term nature that allows alliance members to commit sufficient resources to R&D (Kodama, 1995); and to collaborate in the integration of externally acquired technology for the speedy development of new products:

Japanese firms have the organizational structures and processes, and a long history of externally generated technology, which enable them to learn more from R&D collaborations than their American counterparts (Forrest, 1996, p. 146).

Another advantage of long-term corporate relations, especially relations between large corporations and their subcontractors, is that they allow subcontractors to fully explore the experience acquired throughout the duration of the partnership, experience that translates to lower cost for the products supplied by the supplier (subcontractor) to the buyer. As Dyer and Ouchi put it in their discussion of Japanese-style partnership *vis-à-vis* US-style partnerships in the automobile industry:

By applying the partnership approach, Japanese automakers have consolidated their business with a few highly efficient suppliers and created conditions that permit the suppliers to make the investments necessary to accelerate down the experience curve and to share the full advantage of this volume (and the resulting lower cost per unit) with the car makers (Dyer and Ouchi, 1993, p. 54).

By splitting their businesses among many suppliers and rotating them frequently, US manufacturers have repeatedly destroyed the experience curves of suppliers by ensuring that no one supplier could accelerate down the experience curve to accumulate decisive cost advantages (Dyer and Ouchi, 1993, p. 55).

Another advantage of subcontracting is the informal alliances among members that range from large and well-known corporations to small obscure start-ups that are the source of entrepreneurship and innovation:

Japanese small businesses are playing a great role in shaping the Japanese economic structure. The world of Japanese businesses, according to

conventional thinking, consists of huge corporations whereas start-ups by entrepreneurs are seldom mentioned (Richter and Teramoto, 1995, p. 100).

Subcontracting relations and company alliances allow Japanese companies to co-specialize in the development and production of complex products such as automobiles. And as co-specialization requires custom-made investments, it is very hard to be transferred across companies and so it can be a source of competitive advantage (Kojima, 1996). This is the conclusion that Dyer arrives at an empirical investigation of the governance structures of Japanese and US automakers:

Data from this study demonstrates that Japanese automotive value chains are characterized by greater asset co-specialization than competing US value chains. I have argued that this is a key factor in coordinating interdependent tasks within a complex product industry. In fact, this difference in specialization is arguably the most important factor in the competitive advantage of Japanese firms in the production of complex products (Dyer, 1996; for a detailed discussion of this point).

In a study of *keiretsu* and Japanese direct investments in US manufacturing, Kimura and Pugel shed further light on how *keiretsu* alliances allow affiliates to share certain intangible assets and exploit economies of scope:

By hiving off a new but related business as an affiliate, the core firm avoids these vehicles continuing to exercise some control and coordination through equity ownership, other resource ownership and information sharing. Linkages among the firms' activities in technology, production, and marketing offer the firms in the enterprise *keiretsu* opportunities to exploit economies of scope while minimizing the disadvantage of internal diversification.

In a more recent study, Dyer (1997) further explains how, contrary to conventional wisdom, co-specialization has allowed Japanese companies to simultaneously achieve asset specialization and lower transaction costs at the same time, i.e. minimize transaction costs and maximize transaction value.

Corporate alliances further allow Japanese companies to combine competition and co-operation. Electronics manufacturers like Matsushita Electric and Nintendo, for instance, set up contests for their subcontractors for the development of new product ideas, but they encourage them to jointly develop products. Co-operation and competition among smaller subcontractors has further given rise to a new management concept called "interpreneurship":

This entrepreneur develops his abilities within small businesses which are playing a great role in shaping the Japanese economic structure. The world of the Japanese businesses, according to the conventional thinking, consists of huge corporations whereas start-ups by entrepreneurs are seldom mentioned (Richter and Teramoto, 1995, p. 100).

The reliance of the Japanese system on the "community of fate" ideology and on long-term corporate relations that are based on implicit trust rather than on explicit ownership relations further suggests that Japanese management practices are easier to transfer in Asian countries that share similar philosophical values with Japan rather than Western societies (Abo, 1995; Gupta and Kumon, 1996; Kumon, 1993).

In short, the competitive advantage of Japanese enterprises is not to be found in traditional practices, but in the way these practices are upgraded and reinforced by ideological factors such as the "community of fate", as well as the formation of governance structures that cultivate the development of contextual knowledge that leads to the efficient and effective production of complex products.

Summary and conclusions

To sum up, though a number of well-known Japanese management practices have become the standard around the world, this does not mean that Japanese companies no longer have a competitive strategy, as Porter claims. As we argued throughout the paper, the competitive advantage of Japanese companies is to be found not just in the traditional practices *per se*, but in the way these practices have been upgraded and supported by a "a community of fate" ideology as well by governance structures conducive to knowledge integration. Our discussion further suggests that the Japanese competitive advantage can be transferred more easily to countries that share a similar culture with Japan, such as Asian countries, rather than countries with dissimilar cultures.

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