Strategic organizational leadership in capstone paper

ASSIGN BUSTER

Overview

Chrysler Group LLC is the third largest American Automobile manufacturer and fifth largest in the American market with an 8. 79% market share on sales of 931, 402 units. (Chrysler, 2010)

The Chrysler Group LLC was created in 2009 through a 20% purchase of Chrysler LLC by The Fiat Group. The Chrysler Group LLC consists of Chrysler, Jeep, Ram, Dodge, Mopar and Global Electric Motorcars (GEM) brands of vehicles and parts. The recent alliance between the Fiat Group and Chrysler Group LLC is said to better position both companies in the global market (Chrysler, 2010). Chrysler Group LLC dates date to 1925 when it was founded by Walter Chrysler. The original Chrysler Corporation merged with Daimler-Benz in 1996 to form Daimler-Chrysler. In 2007 the Chrysler division of Daimler-Chrysler was purchased by Cerberus Capital Management to form Chrysler LLC, the precursor to the current Chrysler Group LLC. Fiat Group was started in 1899. Both companies have a unique history of innovative and storied products (Chrysler, 2010).

Having survived a brief Chapter 11 bankruptcy reorganization in 2009, the company position is positioning itself for an automotive resurrection by choosing a back-to-basics alliance with Fiat. The collaboration gives Chrysler access to the Italian company’s small-car expertise and global markets, while still manufacturing its Chrysler brands, including Dodge, Jeep, and Ram vehicles. Chrysler’s trademarked MOPAR (MOtor PARts) division, with its 30% market share, carries over 280, 000 parts, options, and accessories for

vehicle customization; it expanding to incorporate Fiat parts. Chrysler's GEM (Global Electric Motor Cars) makes neighborhood electric vehicles (NEVs).

Headquartered in Auburn Hills, Mich., Chrysler Group LLC's product lineup features some of the world's most recognizable vehicles models, including the Chrysler 300, Jeep Wrangler and Ram Truck. Fiat will contribute world-class technology, platforms and powertrains for small- and medium-sized cars, allowing Chrysler Group to offer an expanded product line including environmentally friendly vehicles.

History

In 1920, the president of Buick and Vice President of General Motors (GM) resigned his positions in the GM Corporation following political differences with founder and then-president of General Motors William Durant. This former automotive Vice President was promptly approached by a group of investors to focus his business acumen in the fledgling automotive industry on a small, financially troubled New York company called Maxwell Motor Corporation. The one-time automotive vice president was installed as president of Maxwell Motor Company (Hyde, 2003). The man's name was Walter Percy Chrysler.

In short order, Walter Chrysler brought the Maxwell Motor Corporation out of bankruptcy. The financial improvement was due in large part to Mr. Chrysler introducing a new Maxwell model- the Chrysler Six (Hyde, 2003). This car was very well received by the automobile buying public and went on to sell 32, 000 units in its first year, generating a profit of over $4 million for the small company. On the heels of the success of the Chrysler Six, Walter

Chrysler changed the name of the Maxwell Motor Corporation to the Chrysler Corporation. Capitalizing on the success of the initial Chrysler model, Walter Chrysler introduced 4 additional Chrysler models know as the Chrysler 50, the Chrysler 60 the Chrysler 70 and the Chrysler Imperial 80. Interestingly the model numbers were derived from the top speed of these new vehicles as gauged on level ground. As a point of reference, Ford’s Model T was, until the introduction of the new Chrysler models, the fastest road car with a top speed of 35mph. It was these new Chrysler models that caused Henry Ford to notoriously shut the doors of the Ford Motor Company for nine months to create a replacement for the Model T. By the time Ford closed its doors to redesign its offering, Chrysler had established itself as formidable competition. With sales of 192, 000 of these new models, Chrysler officially became the fifth largest automobile manufacturing company in the industry (Hyde, 2003).

Walter Chrysler determined that to achieve the greatest manufacturing cost efficiency, he would have to build his own plants to produce the various parts needed for his vehicles. The capital expenditure required to do this was estimated at $75 million. While successful, the Chrysler Corporation could not afford this capital expense and so Walter Chrysler contacted the banking firm of Dillon Read and Company in New York; a firm that fatefully had just purchased the Dodge Corporation from the widows of the late Dodge Brothers. Dillon Read and Company was eager to do business with the well known Chrysler Corporation. As part of the arrangement, the Dodge Corporation became a division of the Chrysler Corporation. This merger effectively increased the size of the Chrysler Corporation fivefold. Shortly

after the merger, the Chrysler Corporation unveiled its new, low cost Plymouth and Desoto models.

In a reversal of strategy, Walter Chrysler ended his drive to bring all manufacturing in-house. He was wise to see that the speed with which the automotive industry was growing demanded greater flexibility that in-house manufacturing could provide. Outsourcing automobile components was more expensive but allowed for greater flexibility and a more rapid development cycle in designing new models. In this same period, Walter Chrysler made research and development a budgetary priority. Research and Development persevered at the presidency of Chrysler was This foresight allowed Chrysler to weather the Great Depression and emerge in a more sound financial position than many others in the automotive industry (Curcio, 2000) In 1931, Joseph E. Fields assumed the presidency of Chrysler from Walter Chrysler and in 1936 Walter Chrysler fully handed of the daily operation of the company.

At the beginning of the 1940s the Chrysler Corporation, along with most other large American manufacturers switched to wartime production. The Chrysler Corporation’s Dodge, Plymouth and Chrysler models were put on hold while the company contributed to the production of wartime necessities including small ammunition, submarine nets and, perhaps most notably, B-29 bomber engines (Hyde, 2003).

As American industry adjusted to post-war production needs, the Chrysler Corporation started to falter and performance began to wane. The vivacity and forward momentum that Walter Chrysler imparted to the company were

no longer present. After the automotive technology boom of the 20s and 30s, the rate of innovate in the industry began to slow. Post-war America’s tastes began to change toward streamlined, nontraditional models and, at times, at the expense of reliability and built quality (Hyde, 2003). To some extent, flashy advertising was influencing buying decision more than quality, features and nameplate. Chrysler was detrimentally slow to react to this new America.

In 1950, a long-time legal counsel for the Chrysler Corporation by the name of L. L. Colbert became president. He immediately took the reins of the company to institute managerial reforms with the help of a professional management consulting firm. Colbert concentrated on three areas; expanding into international markets, centralizing corporate management and refocusing the engineering department on innovation. Despite his decisive changes, Colbert’s efforts did little to improve Chrysler’s position in the industry. In two short years, Colbert was replaced as head of Chrysler by Lynn Townsend.

In charge of the struggling company, Townsend proved to be more successful in his revival attempt. He sold, closed or otherwise divested of unproductive manufacturing facilities and downsized the labor force thereby improving efficiency. He purchased a single early model IBM computer which helped workforce reduction efforts by eliminating the need for almost 800 employees. The early 1950s saw the dawn of Total Quality Management Theory lead by pioneers in the field including W. E. Deming and A. V. Feigenbaum (Kreitner, 2007). Townsend seemed to take notice of this movement as his most notable achievement was a focused quality

improvement effort that did boost sales and allowed Chrysler to offer a warranty unprecedented in the industry thus far. To further the momentum,. Townsend undertook an aggressive marketing campaign touting the new, improved quality of Chrysler vehicles. Where Colbert had failed, Townsend succeeded; Chrysler was again a stable, financially healthy and expanding corporation.

As might be expected, with this new success came growth. In the midst of the American space age of the 1960s, Chrysler expanded to include an aerospace division and became a principal subcontractor for NASA's Saturn rocket program. Townsend's consistent push to grow international business resulted in Chrysler plants in 19 countries by the end of the decade.

At the onset of the 1970s, the American car market was feeling the effects of a rising consumer price index, increasing competition from foreign auto manufacturers, and the first signs of the crude oil crisis. In 1969, Chrysler reported losses of almost $5 million dollars and, with an infrastructure to support he growth of the 1960s, was operating at only 65% of capacity. Chrysler met this changing market climate with a product stable that included large, expensive, gas thirsty vehicles as well as smaller more economical cars. The company seemed more content to contend with the traditional American competition than to assess the changing market demand and consequently, Chrysler was faced with an excess inventory of the vehicles the market wasn't buying and a severe shortage of the vehicles the market was demanding.

Despite significant price reductions to move its excess inventory, Chrysler's financial fortune continued to slide. Chrysler's presidency was assumed by John Riccardo. Ricardo, with an accounting background was intent on cutting operating costs. Total employment, payroll and individual budget area were affected by the cost cutting measures. This period also marks the first efforts to import and sell vehicles manufactured overseas.

Chrysler's shortsightedness with regard to market demand was not over. Despite the inconsistency between what the company was manufacturing and the market was demanding, Chrysler continued to make larger, less efficient models right into the Arab oil embargo. In 1974, Chrysler reported an unprecedented budget deficit of over $50 million. In 1975, the damage was five times as great at over $250 million in losses.

The American auto market was severely impacted by several factors including inflation and the Arab oil embargo but Chrysler's significant foreign interests were still showing a profit. This profit served to offset the domestic losses however, in 1978 Chrysler again reported losses of over $200 million. Riccardo continued to cut costs, consolidate the various divisions of the Chrysler Corporation and direct manufacturing efforts toward smaller, more efficient vehicles but the Chrysler Corporation's financial health continued an unsustainable slide.

Chrysler ended the 1970s on the brink of bankruptcy. The company was spared bankruptcy proceedings by federal intervention in the form of a $1. 5 billion lifeline loan guarantee. This loan came with conditions including the requirement that Chrysler raise $2 billion in additional money on their own

and they make significant management changes. This last requirement ended the tenure of J. J. Riccardo as president of Chrysler. Riccardo was replaced by charismatic industry veteran Lido Anthony " Lee" Iacocca.

Where Riccardo was an accountant, Iacocca was adept at public relations and marketing. He employed these skills in communicating to both the workforce at the Chrysler Corporation and the public at large the need for federal intervention

By the mid-1980s, the company was back on track and stronger than ever before. Chrysler benefited from the combined impacts of strong industry demand and shifting consumer preferences toward pickup trucks and minivans, products that dominated Chrysler's lineup.

By 1997, Chrysler reported annual sales of 2. 9 million vehicles, record revenues of $61 billion, and record earnings of $2. 8 billion. Chrysler's year-end market capitalization was $22. 8 billion and its US market share crossed over 16%. Chrysler had become one of the most profitable automotive companies in the world – and had roughly $7. 5 billion in cash on hand. 2 Nick Colas, an analyst with Credit Suisse First Boston, declared: " Chrysler has a better business model for building and selling cars than General Motors and Ford do." 3

As profitable as Chrysler was, however, the company was not capitalizing on the growth of the global automotive industry. Since the company had made limited investments in overseas markets up to this point, finding a partner made the most strategic sense.

On May 7, 1998, Chrysler merged with Daimler, the leading German luxury car manufacturer, for $36 billion of Daimler stock, the largest trans-Atlantic merger in history. The merger was orchestrated in order to create an efficient and lean automotive powerhouse that would better compete in the global marketplace. The transaction was reported as a “ merger of equals” in the business press. The combined company would have a market capitalization close to $100 billion.

In 1997, Daimler reported revenues of $62 billion and net income of $1. 8 billion. Though Daimler

was soundly profitable and had a strong foothold in the European market with its Daimler, Mercedes-Benz, and Smart Car brands, Daimler’s US market share was less than 1%. 4 Daimler’s management hoped that Chrysler would give the company greater inroads into the lucrative US automotive market with its extensive dealership network and powerful brand name.

During the early 1980s, Iacocca's skills as a superb television salesman were of crucial importance as Chrysler lost nearly $1. 8 billion in 1980–the largest loss ever for a U. S. company–and another $475 million in 1981, before returning to the black in 1982. In August 1983 Chrysler was able to pay off the government loan guarantees seven years early, with the government making a $350 million profit on its investment. Chrysler's road to recovery was a difficult one, demanding the closure of several plants and the reduction of the company's workforce. Once restructured, Chrysler scrapped its plans to diversify and divested the Gulfstream Aerospace unit it had purchased five years earlier, selling it to a New York investment firm for $825 million in early 1990. Two other units in the company's Chrysler Technologies subsidiary–Electrospace Systems and Airborne Systems–were slated for divestiture as well, which underscored Iacocca's intent to create a leaner, more sharply focused company. Meanwhile, there were two key developments in the 1980s that helped form the foundation for the 1990s resurgence: the introduction of the minivan in 1984 and the acquisition three years later of American Motors Corporation and its Jeep brand for $1. 2 billion.

Reorganized as such, Chrysler entered the 1990s braced for a full recovery, but the economy did not cooperate. The decline in automotive sales during the fourth quarter of 1989–the company's first fourth quarter decline since 1982–portended a more crippling slump to come, as an economic recession gripped businesses of all types, both domestically and abroad. Net income in 1990 slipped to $68 million, then plunged to a $795 million loss the following year, $411 million of which was attributable to losses incurred by the company's automotive operations. Mired in an economic downturn, Chrysler appeared destined for more of the same, rather than headed toward recovery as Iacocca had hoped, but part of the reason for 1991's losses also led to the company's first step toward genuine recovery.

Partly to blame for the $795 million loss in 1991 were the high preproduction and introduction costs associated with Chrysler's new Jeep Grand Cherokee and increased production costs at the company's St. Louis minivan plant. These two types of vehicles–minivans and sport utility vehicles–represented the key to Chrysler's recovery. The popularity of these vehicles, coupled with significant price advantages over Japanese models, fueled Chrysler's resurgence. In 1992, Chrysler turned its $795 million loss the year before into a $723 million gain. It was a signal achievement, accomplished in Iacocca's last year as CEO. Taking over during 1992 was Robert Eaton, who was hired away from GM, where he was head of European operations. Chrysler then went on to enjoy its most successful year ever, with 1994 earnings of $3. 7 billion on revenues of $52. 2 billion.

The good news at Chrysler continued into the late 1990s, after the company managed to fend off a $22 billion buyout proposed by billionaire investor Kirk Kerkorian in 1995. The long prosperity and low gasoline prices of the middle to late 1990s created a huge demand for large vehicles, and Chrysler was producing hot models in each of the hottest segments: the Dodge Ram pickup truck; the Town & Country minivan; and several sport utility vehicles–the Jeep Grand Cherokee, the Jeep Wrangler, and the Dodge Durango. Questions about the quality of Chrysler products continued to pop up, but the company's share of the U. S. auto market reached as high as 16. 7 percent in 1996, the highest level since 1968. In 1996, the year Chrysler moved into new headquarters in Auburn Hills, Michigan, sales reached $61. 4 billion.

The Creation and Early Years of DaimlerChrysler

Daimler-Benz Chief Executive Jürgen Schrempp had concluded as early as 1996 that his company's automotive operations needed a partner to compete in the increasingly globalized marketplace. Chrysler's Eaton was drawing the same conclusion in 1997 based on two factors emerging around the same time: the Asian economic crisis, which was cutting into demand, and worldwide excess auto manufacturing capacity, which was looming and would inevitably lead to industry consolidation. With annual global overcapacity as high as 18. 2 million vehicles predicted for the early 21st century, it became clearer that Daimler-Benz and Chrysler could survive as merely regional players if they continued to go it alone.

After several months of negotiations, Daimler-Benz and Chrysler reached a merger agreement in May 1998 to create DaimlerChrysler AG in a $37 billion deal. The deal was consummated in November 1998, forming an auto behemoth with total revenues of $130 billion, factories in 34 countries on four continents, and combined annual unit sales of 4. 4 million cars and trucks. The two companies fit well together geographically, Daimler strong in Europe and Chrysler in North America, and in terms of product lines, with Daimler's luxurious and high-quality passenger cars and Chrysler's line of low-production-cost trucks, minivans, and sport utility vehicles. Although this was ostensibly a merger of equals–the company set up co-headquarters in Stuttgart and Auburn Hills, naming Eaton and Schrempp co-chairmen–it soon became clear that the Germans were taking over the Americans. DaimlerChrysler was set up as a German firm for tax and accounting purposes, and the early 2000 departures of Thomas Stallkamp, the initial head of DaimlerChrysler's U. S. operations, and Eaton (who was originally slated to remain until as late as November 2001) left Schrempp in clear command of the company.

During 1999 DaimlerChrysler concentrated on squeezing out $1. 4 billion in annual cost savings from the integration of procurement and other functional departments. The company organized its automotive businesses into three divisions: Mercedes-Benz Passenger Cars/smart, the Chrysler Group, and Commercial Vehicles. In November 1999 DaimlerChrysler announced that it would begin phasing out the aging Plymouth brand. The Debis services division was merged with Chrysler's services arm to form DaimlerChrysler Services, while DASA was renamed DaimlerChrysler Aerospace. Late in 1999 the company reached an agreement to merge DaimlerChrysler Aerospace with two other European aerospace firms, the French Aerospatiale Matra and the Spanish CASA, to form the European Aeronautic Defence and Space Company (EADS). DaimlerChrysler would hold a 30 percent stake in EADS, which would be the largest aerospace firm in Europe and the third largest in the world.

In early 2000, DaimlerChrysler set the lofty goal of becoming the number one automaker in the world within three years. The company's most pressing needs were to bolster its presence in Asia, where less than 4 percent of the company's overall revenue was generated, and to gain a larger share of the small car market in Europe. Filling both of these bills was DaimlerChrysler's purchase of a 34 percent stake in Mitsubishi Motors Corporation for $2 billion, a deal announced in late March. The company later increased its interest in Mitsubishi when it purchased a 3. 3 percent stake from Volvo. In another key early 2000 development, DaimlerChrysler agreed to join with GM and Ford to create an Internet-based global business-to-business supplier exchange named Covisint.

DaimlerChrysler's lofty goal would remain unrealized however, as the company faced a host of challenges. The Chrysler Group division was plagued by high costs and weak sales which ultimately cost James P. Holden his CEO position. Buoyed by its strong sales in the mid-1990s, Chrysler had spent heavily on product development in the late 1990s and bolstered its work force while costs were skyrocketing. By the second half of 2000 Chrysler lost $1. 8 billion while spending over $5 billion. Dieter Zetsche was tapped to reorganize the faltering U. S. division. He launched a major restructuring effort in February 2001 that included cutting $2 billion in costs, making additional cuts in supplier costs, slashing 20 percent of its workforce, and making changes to Chrysler's product line that included the elimination of the Jeep Cherokee (the Grand Cherokee remained in the product line) and the launch of the Jeep Liberty.

At the same time, global economies began to weaken in the aftermath of the September 11, 2001, terrorist attacks. To entice customers, car makers began offering buyer incentives that began to wreak havoc on profits. Industry analysts began to speculate that the 1998 merger may have been a mistake–Schrempp's proclamation that the deal would create the most profitable car maker in world had indeed fallen short. In fact, the company's market capitalization was $38 billion in September 2003. Before the union Daimler's market cap had been $47 billion.

Meanwhile, the company's Mercedes division plugged along launching the E-Class sedan, the SLK roadster, and the Maybach luxury vehicle. In 2003, Chrysler launched the Crossfire, a roadster developed with Mercedes components, and the Pacifica, a SUV/minivan. It also began to heavily market its powerful Hemi engine, which could be purchased for the Dodge Ram pickup and its passenger cars. In early 2004, Chrysler's 300C sedan and the Dodge Magnum sports wagon made their debut.

Competition remained fierce in the auto industry prompting DaimlerChrysler to make several changes in its strategy. In December 2003, the company sold its MTU Aero Engines business. That year the firm acquired a 43 percent stake in Mitsubishi Fuso Truck and Bus Corporation hoping to cash in on Asia's growing truck market. Perhaps its most drastic move, however, came in April 2004 when DaimlerChrysler's supervisory board voted against providing funds to bailout Mitsubishi Motors, which by now was struggling under losses and a huge debt load. Mitsubishi played a crucial role in Schrempp's Asian expansion strategy and it developed the platforms for Chrysler's compact and midsize cars. The failure to provide funds put a strain on the business relationship between the two and threatened to result in huge problems for Chrysler, which had cut back on engineering capacity as it relied on Mitsubishi to develop its small and mid-sized cars.

At the same time, DaimlerChrysler moved ahead in the Chinese market–without Mitsubishi and without another partner, Hyundai. To bolster is presence in the region, DaimlerChrysler restructured its joint venture with Beijing Automotive Industry Holding Co. Ltd. and set plans in motion to tie up with Chinese Fujian Motor Industry Group and the Taiwanese China Motor Corporation to launch several cars in the Chinese market by 2005. Rumors circulated that DaimlerChrysler's relationship with Hyundai was faltering as a result, and in 2004 the company signaled that it would sell its interest in the South Korean automaker.

By 2004, Schrempp's DaimlerChrysler was a far cry from what the 1998 merger promised to deliver. The company's financial record was lackluster, bogged down by Chrysler's $637 million loss in 2003. DaimlerChrysler remained the world's number three car maker, leaving the 2000 goal–to become the number one auto company in the world–unfulfilled. Whether the merger would provide the hoped-for results remained to be seen.

Literature Review

Leadership is the process through which one individual influences the attitudes perceptions and motivations of other members of a group toward the achievement of a specific group or organizational goal (Greenberg & Baron, 2008). Strategic leadership, by extension, is a leader's ability to foresee and proactively act on external conditions, and empower group members to implement change toward the strategic plan as necessary (Kreitner, 2007). Strategic change therefore is that change that happens as an organization moves toward the attainment of their strategic plan. (Kreitner, 2007).

Strategic leadership is serves several functions, includes extending managerial influence through other group members, and makes organizations more able to successfully meet the need for change that is brought by ever quickening change in the market and market forces (Nickels et al., 2002). The ability to understand and analyze internal realities as well as market forces is a necessary component of strategic leadership. With this information in-hand, it is then necessary to perform complex information

analyses. Appling a strategic management process successfully will aid in bringing about effective strategic leadership (Hitt and Keats, 1992).

As this description suggests, strategic management is not without complexities, but it is critically necessary for successful strategic leadership. Many organization in today's business environment fall victim to the " over-managed, under-led" paradigm and so the understanding and successful implementation of strategic leadership is more important than ever (Kreitner, 2007).

The successful application of strategic leadership starts at the top. By virtue of his or her position, the CEO should not consider delegating this specific duty to lower management. Once the CEO is effectively practicing strategic management, his or her methods may be adopted by other managers to effectively implement strategic management in the various divisions of an organization (Hitt, Ireland, and Hoskisson, 1995).

Hitt, Ireland, and Hoskisson (1995) formulated a strategic leadership model which consists of six components; Determining strategic direction, exploiting and maintaining core competencies, developing human capitol, Sustaining effective corporate culture, emphasizing social responsibility and ethical practices, and establishing strategic controls.

(1) Determining strategic direction;

(2) Exploiting and maintaining core competencies;

(3) Developing human capital;

(4) Sustaining an effective corporate culture;

(5) Emphasizing social responsibility and ethical practices; and

(6) Establishing strategic controls.

Determining strategic direction of an organization involves using all information available on market, competition, core competencies and well as foresight and vision to clearly define long range goals for the organization (Kreitner, 2007). Strategic intent means leveraging the firm’s internal resources, strengths, opportunities and core competencies to accomplish the goals that have been defined in the strategic planning process. Strategic directions give the members of the organization a clear path to attainment of the set goals (Kreitner, 2007).

An organizations efforts can be considered strategic intent exists when all members of the organization or united in their pursuit of the specific benchmarks set forth by the strategic plan and belive that these goals are attainable and attainment will enable the organization to have a competitive advantage over other organizations in their industry. (Kreitner, 2007). Intel, Canon, and Xerox Microsoft are good example of corporations that have clearly discernable strategic intents (Loeb, 1993).

Clear strategic intent requires effective strategic planning and effective strategic planning requires long range vision and foresight, usually five to ten years into the future. This long range vision must incorporate organizational and human resource strategy, design strategy, product

planning strategy and information use and information system strategy and, finally, it must provide for a system of strategic control (Hunt, 1991).

Exploiting and Maintaining Core Competencies is the second of the six components. Core competencies are the internal and external resources and the body of capabilities and expertise that give an organization it’s identity in the market and ultimately, its competitive advantages. Usually, core competencies relate to an organizations ability to produce their main products, be they material of informational. Some examples might include industrial manufacturing, research, customer interfaces and customer service, retail sales, technology or even specific patents held by the company. Unique market positioning, and unique customer benefits or product value are results of core competency and so, these things should be analyzed when determining core competency. A good question to ask is: why do our customers do business with us?.

A main responsibility of strategic leaders in business today is to first identify, and then strengthen and grow their core competencies. Once core competencies are identified, they can then be utilized. As strategic leaders, corporate managers make decisions intended to help their firm develop, maintain, strengthen, leverage, and exploit core competencies. Exploiting core competencies involves sharing resources across units. In general, the most effective core competencies are based on intangible resources, which are less visible to competitors because they relate to employees’ knowledge or skills. Effective strategic leaders promote the sharing of intangible resources across business units in their firms (Hitt and Keats, 1992).

In many large, diversified firms, core competencies are developed and applied across different units in the organization (economies of scope) to create a competitive advantage. Miller Beer, for example, has applied marketing and promotion competencies across its multiple businesses (Maruca, 1994). In many multinational corporations, the development, nurturing, and application of core competencies also facilitate managing complex relationships across business operating in different international markets. Whirlpool has emphasized competency across country borders (Lei, Hitt, and Bettis, 1990).

3. Developing Human Capital

Human capital refers to the knowledge and skills of the organization’s work force – employees as a capital resource (Hitt, Ireland, and Hoskisson, 1995). Much of the development of American industry can be attributed to human capital. One-third of the gr