THE GLOBAL CHESS GAME…OR IS IT "GO"?
INTERNATIONAL STRATEGIES FOR WORLDWIDE COMPETITION

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Abstract

This paper develops two contrasting metaphors of international strategy formulation: the *Global Chess Game* and the game of *Go*. Over the past two decades numerous industry leaders have been displaced by competitors playing *Go*. Many industry incumbents have been taken by surprise by these foreign challengers. Unfortunately, existing competitor analysis models ignore key variables in the global business environment; therefore, they have not provided sufficient understanding of the new paradigm of global strategy. A Global Framework for Competitor Analysis is proposed to overcome this weakness. This Framework explicitly incorporates national culture and other societal antecedents as precursors of competitive strategy formulation, and competitor analysis.

1. Introduction

Companies who rise to leadership positions in the 21st century are not likely to credit business schools for preparing their paths to greatness. Strategy as an academic discipline emphasizes tactical moves among traditional competitors aimed at growing product and market share within established industry structures. Too many companies have become comfortable focusing on short-term goals and the efficient utilization of resources. Reality is far more complex. Industry lines are being redrawn, and new territories are being explored in terms of geography, technologies, and customer desires. Academicians are calling for a new strategy paradigm that emphasizes market leaders as rule makers who reinvent the industries in which they compete. The winning companies are those with the foresight to forecast long-term opportunities, and to devote top-level, corporate drive to meeting new market demands worldwide. Essential elements of success are: 1) the articulation of long-term goals; and 2) the formation of a *strategic architecture*, a network of internal competencies and coalition partners enabling the company to control a full range of requisite resources (1994p.67). These authors provide a multitude of examples to support their view.

Comparing a list of industry leaders in the 1980s with those of the 1990s, it is clear that the majority of incumbents were not able to maintain industry leadership, despite vast resources and deep pockets. In fact, the majority of new leaders shifted from a largely U.S. group to a list dominated by foreign competitors from Asia, predominantly Japan. Why were the existing industry leaders unable to hold their lead? Why weren't the

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competitors' moves anticipated by the existing leaders? How was it that Japanese companies rose to the top of these industries, particularly as some academic experts believe that "Japanese companies rarely have strategies" (Porter, 1996, p.63). Some authorities responded to the new competitive challenges by proclaiming the death of strategic planning, rationalizing that the future is too turbulent and uncertain for long-term strategic planning to reap required payoffs.

From a different perspective, it can be seen that Porter and the critics of strategic planning are wrong. They have not recognized how successful strategic planning has been for foreign competitors, because they are viewing the competitive game through Western lenses. The Japanese are simply playing a different strategic game, deeply embedded in Asian cultures. Many Western companies and business academics are oblivious to it. The Japanese, along with a growing number of Asian companies in China, Korea, and the Pacific Rim, and an increasing number of European companies, have recognized the value of strategic planning using a different set of rules. This strategy paradigm is new to Western business academics and business practitioners, but it is not a new paradigm in the Orient. "The new global competitors approach strategy from a perspective that is fundamentally different from that which underpins Western management thought" (Hamel & Prahalad, 1990. P. 37).

2. The Global "Chess Game" … or is it "Go"?

2.1 International Strategy as a Global Chess Game

Conceptual systems depend on metaphors to inform the way we think, what we experience, and how we act (Lakoff & Johnson, 1980). Metaphors have proven particularly useful as an aid to our cross-cultural understanding, providing images of national cultures that are richer and more complex than any single set of cultural dimensions (Gannon, 2001). Metaphors of global competition can be useful if they capture in a single image a set of insights that inform our overall understanding of the competitors' strategic goals and competitive actions.

The metaphor of a "global chess game" illuminates the leading strategies of major U.S. and European corporations over the past 50 years. Academic publications and the popular press employ the "global chess game" metaphor for international competition. (Bartlett & Ghoshal, 2000) tell us that the top management must play a global chess game, in order to compete in the new global environment. Gupta and Govindarajan (2004p. 67) advise us that that the winning approach to global business is analogous to a chess game: when one attacks, it should be through coordinated action of all available resources. Popular textbooks and business magazines feature chessboards on their covers as a means of conveying the competitive landscape.

What has been missing in the field of international strategy is the realization that the global chess game is but one among several metaphors of how the game of global competition is being played. While Western business practices can be understood as a Chess game, many emerging market MNCs are formulating long-term strategies akin to those of the Japanese and the Koreans. These global challengers are playing a different game with a different set of rules. They are playing the game of "Go", while many Western companies continue to play the "global chess game." As long as these significant differences in strategy go unrecognized, Western businesses will continually be surprised by competition from unexpected quarters, and will find their defensive moves inadequate in light of the challenges they face.

2.2 Paradigms of Competition: The History of Board Games

Board games can be grouped into generalized categories, with most games classified as 1) Racing to Win; 2) Going to War; and 3) Positioning to Pre-empt and Occupy Space. Early cultures used board games as a means to divine future outcomes based on alternative actions available to the "players." The board game was used to assist players in selecting appropriate courses of action. For example, in 1895, when the French were attacking Madagascar, the queen relied on the results of a board game named Fanorona to forecast the battle's outcome, rather than relying on reports of her soldiers' battle performance.

Backgammon: A Race Game

The oldest game boards are predecessors of the game of backgammon. They were discovered in Ur, and date from approximately 3000 BC. The game appears to have migrated first to Egypt, then to the Roman Empire by the first century AD. The game is played on a board with tracks. Pieces are of equal value. The object of a race game is for your pieces to travel, winning by being the first to complete a route in spite of obstacles encountered, and to block your opponent's pieces from doing the same (EncyclopaediaBritannica., 2003a).

Chess: A Game of War

There is evidence that early predecessors of the game of Chess were being played as early as 550 BC, in the territory that is now India. By 500 AD the game was being played in Persia, and from there on to Arab cultures in the Middle East. In the 1700s the game spread to the West. The game is played on a checkered board. Pieces have individually assigned rules regarding types of movements allowed, and the pieces are of unequal value. The object of the game is to maneuver the opponent's King into a fatal position (EncyclopaediaBritannica., 2003b).

Go: A Game of Positioning

The game of Go originated in China thousands of years ago, possibly as early as 2000 BC. It is recognized as perhaps the greatest intellectual game on earth, even surpassing chess. The game arrived in Japan in about 500 AD, and spread throughout Asia. Today, Go Associations can be found worldwide. The game board is a 19 x 19 line grid. Players start with an empty board, and alternate placing their pieces on the points of intersecting lines. Each line between two intersecting points is called a "liberty". The object is to occupy and takeover territory by enclosing the opponent's pieces, and likewise to avoid being encircled. A piece loses its power when it has lost all of its "liberties", or routes of escape. All of the player's pieces look the same, and are of equal power. Their strength comes from the interlocking network that is established by the positioning of the pieces (EncyclopaediaBritannica., 2003c).

2.3 International Strategy as a Game of "Go"

Asian societies, such as China, Korea and Japan have organized strategic corporate resources as a network of companies working in partnership. These networks frequently include national government entities as elements of the network. The coalition strategy is to surround and capture markets, suppliers, and competitors.

Unlike chess the objective of "Go" is not to "kill" the competition, but to surround and capture space. In fact, the opponents' "pieces" don't have to be removed from the "game board" if they can be incapacitated or if they can be usurped, thus contributing to the winning players' "control" of the territory. Ultimately, the winners must pre-empt competition in critical global markets (Hamel & Prahalad, 1994, p. 25). The conceptualization of capturing "space" is not just about geographic territories, but also about controlling key suppliers, technologies, key components, and distribution channels in order to eliminate the "liberties" of the their competitors: strangulation through encirclement. Williamson (1997, p. 5) refers to this strategic architecture as building "walled cities". He summarizes as follows:

> *Such actions are motivated by more than a simple desire for market share. The attitude is perhaps best summed up by the Chinese proverb "Better to be the head of a chicken than the tail of a cow." The objective is to choose a defensible segment defined by product group, technology, or geography (the head of the chicken) and to shape its future by setting the rules of the game and taking advantage of emerging opportunities. In a fortunate few cases, the defensible segment also will be large. But growth through dominance in multiple smaller opportunities will always be preferable to being a follower in a large business driven by others (tail of the cow).*

In Japan this family of companies is called the *keiretsu* (meaning "series" or "linkage"). The keiretsu network grew out of a reorganization of economic resources following World War II. The existing *zaibatsu* were dissolved. The new leaders re-established pre-war relationships among zaibatsu members; the only difference was the lack of a holding company as the controlling entity. A similar system exists in Korea, except that the holding company structure remains in place. The objective of the keiretsu is long-term stability and security, and the system is durable. The keiretsu network of companies is characterized by close, long-term relationships; intra-group buying, selling, and financing; interlocking directorships; exchanges of personnel; and cross-shareholding (Chrysler, 1991).

Despite severe pressures from the long-lived recession over the past decade, there is substantial evidence that the keiretsu system remains strong. For example, total cross-shareholding among members of the Big Six keiretsus was higher in 1999 than it was back in 1983 (Chrysler, 1991). Cross-shareholding in the 10-25% range is still common. However, reforms are taking place within these giant networks. One of the most significant is a restructuring of the banking system. Mergers among banks of the "Big Six" could have a dramatic impact since this would mean that traditional keiretsu members will have to compete for funding and financial support. On the other hand, given a smaller number of financial institutions, the keiretsu linkages might grow even tighter (Ostrom, 2000). Despite such changes, keiretsus remain a powerful force in the global business game.

2.4 The Honda Example: How a Keiretsu Plays the Game of Go

Top leadership perceives the whole world as its "game board", and searches for long-range opportunities in the market. Once these are identified, ambitious goals are set to achieve leadership. Soichiro Honda established the Honda Technical Research Institute in a wood hut, and grew the company into the world's seventh largest carmaker (Ibison, 2003a).

A coalition of companies may include component part suppliers, manufacturing companies, financial institutions, and functional expertise in marketing and other areas. While Honda is not officially a keiretsu member, it has a significant relationship with the Mitsubishi keiretsu, of which three companies own 14.6% of Honda's stock. The Bank of Tokyo-Mitsubishi, and Mitsubishi Trust are Honda's largest lenders and the Bank of Tokyo sits on Honda's 40-member Board (Ostrom, 2000). Twenty nine of Honda's major suppliers followed the company to Ohio, establishing a ring of auto parts operations that largely replaced U.S. suppliers (Hill, 2000). Honda invested in a huge distribution network of 2000 dealerships, retail "missionaries", and added excellent customer support services (Hout, Porter, & Rudden, 1982).

The keiretsu expands its position over time, by establishing toeholds in key technologies, products, and markets; then leverages these niches to grow its position into a dominant market position with a corporate global brand. The challenger moves into markets that the major players don't deem attractive, and builds its base in this "underdefended" market as a launching pad. The company stays below the radar screen of the market leaders while building an uncontested profit sanctuary (Hamel & Prahalad, 1994, p. 49). Honda first entered the U.S. market with its motorcycles to avoid going head-to-head against its major competitors at home. The company leveraged its expertise in engines and powertrains to first grow its motorcycle business in the U.S., then Europe. Next Honda leveraged its technology know-how, brand recognition, and financial resources to break into the U.S. automobile market (Hamel & Prahalad, 1994). Its U.S. market share is growing faster than any of its competitors, up to 8.1% in the first half of 2003; "rest of the world" revenues are expected to grow by 37% over the next three years (Ibison, 2003a). Simultaneously, Honda is expanding its production base in Europe by 250,000 units (Ibison, 2003b).

Keiretsu companies may drop prices substantially, even to levels perceived as "predatory" pricing to drive competitors out of targeted products, technologies, or markets. It has been alleged that Honda's Tokyo parent instructed its suppliers to sell parts in North America at a loss (Magnusson, Treece, & Symonds, 1991).

2.5 Western Reactions To The Game Of Go

> Asked by *Fortune* to explain what went wrong, Roger Smith, GM's boss from 1981 to 1990, said, *"I don't know. It's a mysterious thing."*
>
> (Loomis, 1993)

U.S. automobile companies did not recognize the advancing presence of Japanese challengers until it was too late. Both the U.S. manufacturers and their parts suppliers were left with few feasible defensive moves. A predominant response has been substantial equity investment in their Japanese competitors. Eight of the nine Japanese car and light truck manufacturers now have partial foreign ownership or alliances, including DaimlerChrysler AG's $2.1 billion purchase of a controlling stake in Mitsubishi Motors (Reuters, 2000)

Other business leaders have been more astute in their observations of the "new" competitive paradigm. The banking industry provides an excellent example. According to John Reed, former Chairman and CEO of Citicorp, global competition in banking is about occupying space, wise positioning over time, and not about destroying competitors of specific products (Tichy & Charan, 1990, p. 136).

> *I approach competition a little like the Chinese board game Go. You see where other players have put their chips, figure out why, and decide where to put your chips.*

Our single-minded focus on the global chess game has prevented us from asking the question: What is the outcome if one company is playing chess, while its opponent is playing "Go"? While the keiretsu system can not be wholly transplanted in the U.S. or Europe, Western business strategies are being adapted to meet the challenge of the new global game. Strategic alliances enable corporations to extend their resource capabilities and global reach. Research consortia are being used to build coalitions around basic research initiatives, as a means for offsetting escalating research costs on future generation technologies. U.S. companies are working more closely with their suppliers, establishing more long-term relationships and joint development projects.

The Game of Go metaphor is beginning to find its rightful place as an alternative model of global competition. In a few cases Go game boards are being substituted for Chess boards on publication covers, including the Management Institute for Siemens Ltd. China training brochure; and recent editions of business textbooks, such as Hunger and Wheelen's (1997) *Essentials of Strategic Management*. However, there are no competitor analysis models that incorporate national cultures nor the competitors' predisposition to engage in global games that are shaped by alternative metaphors of global competition.

3. The Status of Competitor Analysis Models in Competitive Strategy Formulation

There are two types of competitor analysis grounded in academic literature: 1) behavioral models; and 2) game theory models from the field of economics. Several theorists have argued that there would be benefits of an integrated approach, drawing from both behavioral and economic perspectives (Zajac & Bazerman, 1991). The business community is applying a hybrid integration of these models in "War Games", a major tool for competitor analysis. These competitor analysis frameworks give little, if any, attention to the national culture of the competing companies as an antecedent to action. Therefore, forecasts of likely moves and countermoves are not taking into consideration one of the most important variables.

3.1 Behavioral Models as a basis for Competitor Analysis

The well-known Framework for Competitor Analysis (Porter, 1980) outlines four key areas of inquiry that should be analyzed if the competitor's intentions are to be understood: 1) Goals; 2) Assumptions; 3) Current Strategy; and 4) Capabilities. The first two areas provide information about what drives the competitor; the latter two categories are descriptive of what the competitor is doing and could do, given its capabilities. Porter states that analysts are less likely to give appropriate attention to the understanding of goals and assumptions, even though it is these factors that will play the predominant role in determining a competitor's strategy. Porter identifies "history" as an indicator of goals and assumptions, and includes the profiles of top management, and business strategies that have worked for them in the past. While national and cultural differences are mentioned as possibly affecting a competitor's assumptions, there is no mention of these elements as a means of better understanding top management's goals or strategies. National and cultural differences are not specifically identified in model. Porter's model provides a broad, general conceptualization of key factors influencing competitor action. Probably because the Framework is so general, it has withstood the test of time. Over the past twenty years, Porter's Framework is the most frequently quoted model of competitor analysis, to the extent that business strategy textbooks deal with the issue at all. See for example *Strategic Management: Competitiveness and Globalization* (Hitt, Ireland, & Hoskisson, 2001, pp. 81-83). Also, his Framework provides the building blocks for War Games currently in vogue with business strategists.

Behavioral models, such as Porter's, provide a framework for competitor analysis set at one point in time, i.e. a *static* representation of the competitor's position like a "snapshot of a moving car" (Hamel & Prahalad, 1990, p. 37.) The purpose of this analysis is to answer the question: What likely strategic moves is the competitor likely to make? Very little attention is paid neither to international characteristics of the competitors, nor to the global environment that underpins competitive interactions today.

Chen (1996) was the first to profer a model predicting the moves and countermoves of competitors based on theoretical constructs of competitor analysis: An Integrated Framework of Competitor Analysis and Interfirm Rivalry. His results indicate that the degree of market commonality and resource similarity between a competitive pair in a "pre-battle" competition can be used to forecast the likelihood of "attacks" and defensive moves. According to Chen, market and resource characteristics set the stage for action, but whether or not a firm takes action is determined by its: 1) awareness of the competitive landscape; 2) motivation; and 3) capabilities. His model represents a substantial advance in theory-building. However, it falls short of capturing the dynamic global environment within which firms compete. Empirical results were based on an examination of established competitors in a domestic industry.

Chen's Integrated Framework provides insufficient attention to three key factors outlined by Porter (1980): 1) Goals; 2) Assumptions; and 3) Current Strategies. Chen concludes that his model would be enriched through inclusion of contextual factors, such as the "social nature" of competition, and by expanding the field of view beyond a single battleground in order to grasp the global consequences of multiple "battles of interest." Chen's recommendation is in line with Porter's view that history and profiles of top management (including their nationalities) directly impact the goals and assumptions that are the drivers of strategic action. Given our growing awareness of the strategic paradigm underpinning global competition, our ability to predict interfirm behavior of competitors is more likely to be understood if cross-cultural nature of the competition is understood.

3.2 Game Theory as a basis for Competitor Analysis

The Theory of Games and Economic Behavior (Neumann & Morgenstern, 1944) is regarded as one of the greatest contributions to economic theory in the twentieth century. The title was meant to emphasize the analogy between games such as chess and backgammon, and other situations in which participants make decisions that affect each other (Ghemawat, 1997). The initial theory was based on zero-sum games, where there must be a loser for every winner, and each player's actions were bounded by "rationality", that disallowed any behavioral aspects of the decision makers that fell outside of a quantifiable domain. The 1994 Nobel Prize in Economic Sciences was awarded to John Nash, John Harsanyi, and Reinhard Selten for their pioneering work in the field. In recent years the field has expanded in ways that more closely approach the real world of business, including the study of non-zero sum games, allowing for cooperation as well as competition, and incorporating the human element in decision-making, including the decision-maker's background, feelings, and perceptions (Brandenburg & Nalebuff, 1996).

The essence of the game theoretic is to put the strategic analyst in the competitor's shoes. Game theory allows one to: 1) Build a simplified model containing all the significant elements of a complicated, real-life competitive situation; 2) Expose general principles and hidden truths; 3) Create a deeper understanding of the competitor's position and likely moves. It allows *dynamic, interactive* analysis of strategic actions among competitors. Its purpose is to allow the analyst to design winning strategies that have taken full account of offensive and defensive moves of the competitors.

While its capability to serve as a tool for competitor analysis has received lip service, its potential has not been fully explored by business academics. Game theory has been viewed by business academics as falling under the purview of the quantitative sciences. Historically game theory has received little recognition in the academic literature of business strategy. A content analysis of most cited journals including the *Academy of Management Journal*, *Academy of Management Review*, *Administrative Science Quarterly*, *Harvard Business Review*, and the *Strategic Management Journal* published in total a mere 14 articles about game theory between 1975 and 1994 (Ghemawat, 1997).

3.3 War Games

While game theory has received little attention in business research, its application within the business community is flourishing. War Gaming is an interactive, dynamic business simulation that allows participants to construct competitive strategies based on an analysis of their own distinct capabilities as well as their competitors most likely moves. It is based on a combination of game theory principles, and Porter's Framework for Competitor Analysis. War Gaming provides participants with actionable recommendations and options, narrows the range of acceptable actions, highlights what one should not do, and provides assistance in gauging competitors' offensive and defensive moves. It is used for competitive strategy building at both the strategic and tactical level. At the strategic level, war gaming most frequently coincides with the initiation of a corporation's strategic planning cycle, and when structural shifts are occurring within the industry (Gilad, 2002).

"War Games Invade Boardrooms" proclaimed David Woodruff (2002) as managers from companies across Europe and the U.S. gathered for "intense" sessions to ferret out the intentions and likely strategic moves of their competitors. As one participant remarked, "It is a really powerful tool to anticipate change and minimize risk…By role-playing, you get inside competitors' heads. I don't think you do with traditional management tools and planning." (J. Peleshok, Manager, AstraZeneca pharmaceuticals, quoted in Woodruff's article, 2002). A leading consultant in running War Games, Ben Gilad, was quoted as saying that he is currently running one War Game a month, and that the number of offerings is following an "exponential growth curve." Examples of the companies who are using War Games to design corporate strategy include BAE Systems, Boeing, Carrefour, GlaxoSmithKline, Lockheed Martin, Office Depot, Shell, Swiss Air, Petrobras, and Unilever.

The War Game has three phases: 1) The Pre-Game Phase includes creation of the War Game Teams, selection of major competitors to be analyzed, and construction of "Data Packs" including necessary information about the competitors; 2) Phase One of the War Game engages the Teams to analyze their assigned competitor in light of Porter's Competitor Framework, and to answer the question, "What is the competitor's most likely strategy?" 3) Phase Two challenges each Team to determine what their company should do, given what they have learned about their major competitors.

War Game Teams are enhanced by a diverse set of resources, so it is beneficial to include a marketing/customer relations manager, technical expert, financial analyst, and experts from other functional areas on each team. Between Rounds One and Two, and at the close of the exercise, Teams share their findings, and build on these to enrich the final list of recommendations provided to senior management.

One serious drawback is that War Game simulations have no explicit foundations related to international business strategy, nor to the national cultures of the competitors under analysis.

5. A Global Framework for Competitor Analysis

Frameworks for competitor analysis must be expanded to incorporate the analysis of global competitors on a worldwide scale. Both the Porter and Chen models offer valuable insights, but neither is sufficient to the task. Figure 1 depicts a Global Framework for Competitor Analysis that integrates both the Porter and Chen models, then goes beyond them to emphasize the social antecedents of competitor actions, particularly the national culture of the competitors' leadership.

6. Conclusions and Implications for Future Research

The metaphor of "global games" provides insights into today's competitive business environment. However, a priori assumptions that global business strategies and competitor analysis can best be understood as a global chess game are unrealistic. Much evidence suggests that the roots of the "new" strategy paradigm being called for by academicians in the West are already well-developed among many Asian companies, including emerging market MNCs. The alternative strategic model can be understood as a game of "Go".

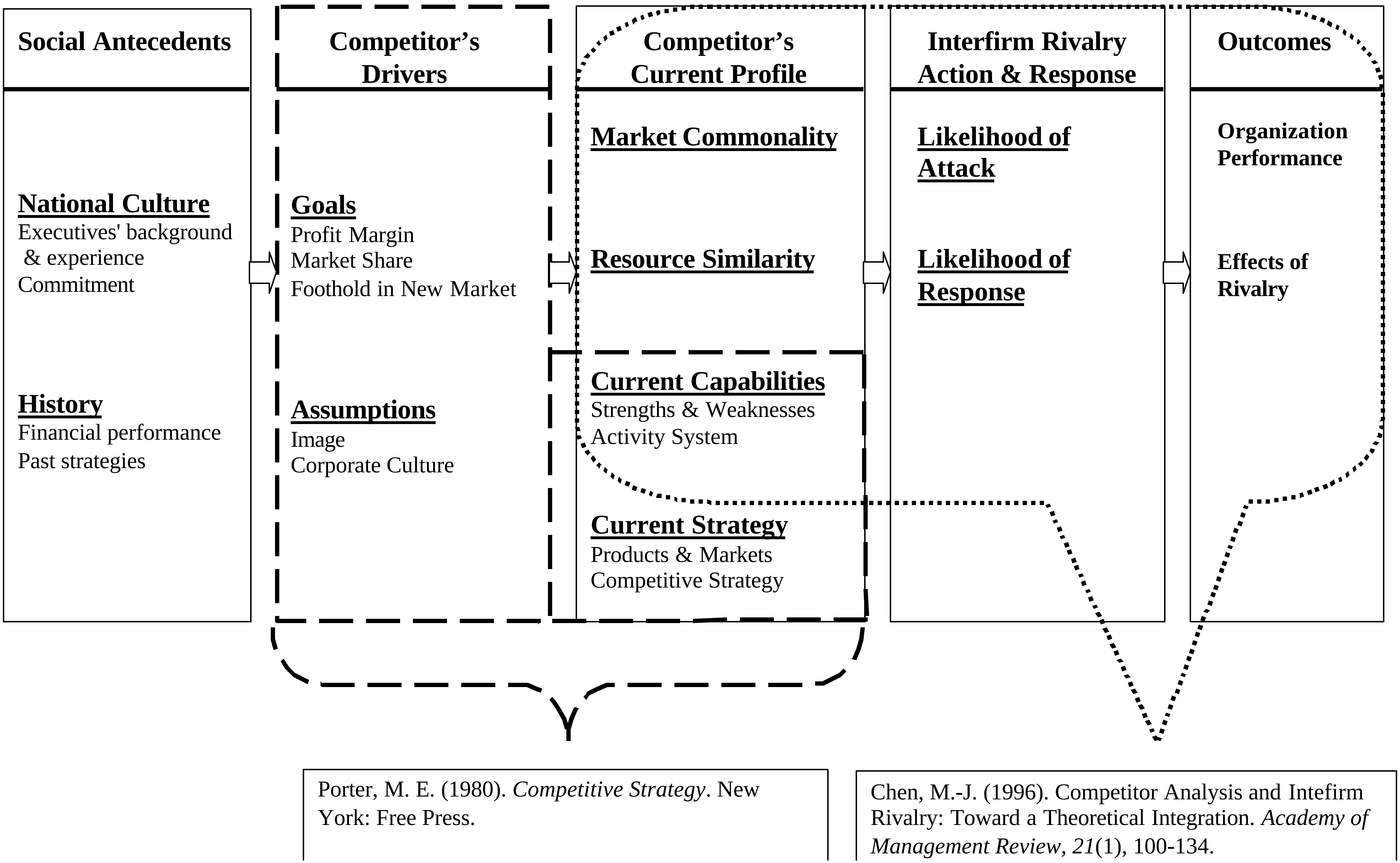
Academic methodologies for competitor analysis are far too simple for today's global business landscape. It is essential that such models expand to include consideration of the national culture of the competitors, as well as other social and historical antecedents to competitive strategy formulation and competitive actions. Academics are lagging behind practitioners in their quest for dynamic models of competitor moves and countermoves. War gaming, which has been enthusiastically embraced by the business community in its quest for better understanding of competitors' likely actions, is not part of business schools' curriculum, nor of academic research.

When suitably enriched, Porter's Framework for Competitor Analysis, and Chen's Integrated Framework could provide a basis for better understanding, both in terms of academic models and research agendas, and also as an improved foundation for war game simulations. The Global Framework for Competitor Analysis proposed here provides an exploratory model that explicitly incorporates national culture and other societal antecedents. Although this represents a significant step, it would be useful for researchers to conduct studies assessing whether or not national culture and other societal antecedents are independent variables with significant impact on competitive actions and interfirm rivalry in the global business environment.

During the past twenty five years, Western academic research on the theory of global business strategy has focused on the individual firm (or multinational enterprise, MNE) as the primary unit of analysis. The primary source of its competitive power has been perceived to be its ability to internalize functions, skill sets, and intermediate markets. Research based on this internalization theory is grounded in the seminal work of Buckley and Casson (1976) and celebrated in a recent issue of the *Journal of International Business Studies* (Yeung, 2003). However, over the past several years there has been growing recognition that the focus on the MNE as the unit of strategic analysis may be too narrow. “Theories such as the resource-based view of the firm may need to be replaced by a resource-based view of the *firms*, whereby the basic unit of analysis is a related cluster of firms such as in the *keiretsu* network” (Peng, Lee, & Tan, 2001, p. 259).

Rugman and D’Cruz (1997) have introduced the notion of the Flagship firm and its network of business partners as an alternative model. Rugman and Verbeke (2003) have proposed that such clusters allow for “de-internalization,” and may result in more effective systems than are possible in highly integrated MNE structures. Proponents of the Flagship model acknowledge that these systems are not new; that indeed successful networks of firms have existed in Japan, Korea, and China over many centuries (Rugman & D'Cruz, 2000). The assumption is made by some researchers that the traditional forms of competitive organization in Asia can be comfortably grouped in the same category as the relatively novel Western Flagship model. To date, most in-depth case studies of the Flagship model have been based on fieldwork in North America and Europe (Rugman & D'Cruz, 2000). Given the distinctive nature of Asian cultures and the administrative heritage of their organizations, far more empirical work will be required to support such a hypothesis.

Figure 1. A Global Framework for Competitor Analysis



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