## **Contents**

Acknowledgements

	Acknowledgements Preface	
	ART ONE	
U	nderstanding Strategic Risk Management	
1	Introduction: Managing Financial Risk in the 1990s	3
	Forces Driving Strategic Hedging	11
	Macroeconomic Drivers	11
	Equity Market Values Are Converging	21
	The Role of the U.S. Dollar Is Declining	22
	Leverage Has Decreased America's Competitive Position	23
	Exports Are Redefining the Economic Map	24
	"Global Regionalism" Is Making The Nation State Obsolete	24
	The Debate on Floating Exchange Rates Continues	27
	Microeconomic Drivers	27
	Higher Adjustment Costs	28
	Flexibility and Responsiveness Are the Orders of the Day	29
2	Defining Strategic Hedging	31
	Managing for Competitive Advantage and Firm Value	32
	Foreign Exchange Strategic Hedge Planning Cycle	34
3	Developing the Analytical Framework	41
	The Dynamics of Product Markets, Firm Structure and	
	Exchange Rate Variations	45
	The Case of the U.S. Medical and Dental Supplies Market	45

## UNDERSTANDING STRATEGIC RISK MANAGEMENT

49

4	Elasticities of Demand and Exchange Rate Changes Cross Elasticity of Demand and Foreign Exchange Rates "We Don't Have Any Exposure Because We Sell in	49 51
	U.S. Dollars" Syndrome Why Elasticity Matters	52 54
5		55
	Five Forces Industry Analysis and Foreign Exchange Rates Simulation Analysis	55 58
	Characteristics of Forwards Characteristics of Options	59 60
	Characteristics of Wu-wei	61
	The Japanese Yen Parallax of Caterpillar and Komatsu	67
6	Organizing For Strategic Hedging: The Paradox of Centralization	73
	Towards a Global Model Does a Proactive Approach Mean Speculation?	74 77
PA	RT TWO	
$\mathbb{C}_{0}$	ompanies and Competition:	
E	scellence in Managing Financial Risk	
7	Compaq Computer Corporation	83
	Compaq's Strategic Edge: Higher Average Selling Price Interview: Ben K. Wells	84 90
8	Eastman Kodak	111
	Eastman Kodak: Responding to Foreign Competition Interview: C. Michael Hamilton and David L. Fiedler	114 122
	Interview. C. Michael Fiarmiton and David E. Ficalor	,

## **CONTENTS**

Λ		
9	Baxter International	147
	Baxter: A Bird's Eye View of Financial Risk	149
	Interview: Barbara Y. Morris, Barbara Byrnes, Robert J. Danko	155
10	Pitney Bowes, Inc.	173
	Pitney Bowes: Strategically Managing Its Cost of Capital	176
	Interview: Carmine F. Adimando and Mary Jo Abate	180
	interview. Carrille 1. Adiriando and Mary 50 Abate	100
11	Merck & Co. (By Judy C. Lewent and A. John Kearney)	201
	Identifying, Measuring and Hedging Currency Risk at Merck	202
	An Introduction to the Company	203
	Identification and Measurement of Exposure	206
	Hedging Merck's Exposure with Financial Instruments	210
	Step 1: Projecting Exchange Rate Volatility	211
	Step 2: Assessing the Impact on the 5-Year Strategic Plan	214
	Step 3: Deciding Whether to Hedge the Exposure	215
	Step 4: Selecting the Appropriate Financial Instruments	219
	Step 5: Constructing a Hedging Program	229
	Conclusion	224
	Chapter 11 Notes	225
	Notes	227
	Bibliography	233
	Index	239