LINKS BETWEEN BUSINESS STRATEGY AND HUMAN RESOURCE MANAGEMENT STRATEGY IN U.S.-BASED JAPANESE SUBSIDIARIES: AN EMPIRICAL INVESTIGATION

Allan Bird*
California Polytechnic State University, San Luis Obispo

Schon Beechler**
Columbia University

Abstract. This study examines linkages between business strategy and human resource management (HRM) strategy in Japanese subsidiaries in the U.S. It investigates whether or not fit between a subsidiary's business strategy and its HRM strategy is associated with higher performance. The data show that subsidiaries with matched strategies performed better than unmatched ones in terms of HRM-related performance measures such as rates of promotion and turnover. Japanese subsidiaries with a business strategy/HRM strategy match were also more likely to experience better business performance versus competitors than were unmatched ones.

INTRODUCTION

Japanese management practices have received considerable attention and notoriety over the past fifteen years as Westerners have searched for the key to Japan's meteoric economic success. This attention has shifted in the last few years from what the Japanese are doing at home to what they are doing overseas. This attention is due, in part, to the increased level of overseas investment by Japanese firms.

Japanese transnational corporations (TNCs) have aggressively moved into a global business arena once dominated by European and American TNCs. Japanese

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*Allan Bird is Associate Professor of Management and International Business at California Polytechnic State University. He received his Ph.D. in Organizational Studies from the University of Oregon. His research focuses on HRM activities in Japanese overseas subsidiaries, Japanese top management teams, and issues related to expatriate assignments.

**Schon Beechler is Associate Professor of Management and International Business at Columbia University. She received her Ph.D. in Sociology from the University of Michigan. Her research focuses on management issues in transnational corporations, particularly the management of Japanese affiliates overseas.

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foreign direct investment [FDI] grew phenomenally after the Plaza Accord of 1986 which caused an abrupt and steep drop in the value of the dollar against the yen. Today, Japanese TNCs represent a formidable international presence around the world. Between 1988 and 1989 alone, total direct foreign investment by Japanese firms increased from $47.02 billion to $67.54 billion, more than a five-fold increase over the 1985 investment level [JEI 1990]. By the end of March, 1990, cases of Japanese FDI had reached 57,400, totaling $254 billion [JEI 1990]. Japanese investment in the U.S. between FY 1951 and FY 1990 accounted for 42% of all Japanese FDI, making the U.S. the largest recipient of Japanese FDI during the postwar period. In comparison, the U.K., the second highest recipient of Japanese FDI during the same period, accounted for only 7.3% of total Japanese FDI worldwide. New Japanese investment in the U.S. increased dramatically in the mid-1980s and peaked in fiscal year 1989 at an annual total of $32.54 billion including 2,668 new cases of investment. Although annual Japanese investment in the United States declined 19.7% from the 1989 figure, 2,269 new cases, amounting to $26.1 billion in new Japanese investment flowed into the United States in 1990.

Although the rapid and visible increase in Japanese foreign direct investment has spawned a closer look at Japanese overseas operations, this attention is also due, in no small part, to the perceived successes a number of visible Japanese firms have had in management and production in their foreign operations. For example, NUMMI, the Toyota-GM joint venture, has been the focus of attention for both journalists and academicians (cf., Duerr [1991]).

Although most American managers, the business press, and the general public believe that Japanese transnational corporations are well managed and that they share common management characteristics because they are Japanese, there is little empirical evidence to support these conclusions [DeNero 1990]. Relatively little is known about the management of the foreign operations of Japanese TNCs and much of what is known comes from the popular press and is primarily anecdotal in nature. With few exceptions, the empirical studies that do exist [Beechler & Bird 1994; Kenney & Florida 1993; Pucik, Hanada & Fifield, 1989; Shibagaki, Trevor & Abo 1989] are generally descriptive in nature with the result that little progress has been made toward developing and applying discipline-based theoretical paradigms to Japanese TNCs.

One consequence of this empirical deficiency has been an assumption by some researchers that Japanese management is culturally deterministic: Japanese companies have instituted specific types of policies and practices both at home and abroad simply because they are Japanese. Such an assumption overlooks the potential influence of distinctive competencies, industry effects, or other variables which have been shown to be elemental in determining organizational structures and processes in research on American firms, both domestic and international (cf., Chandler [1962]; Bartlett & Ghoshal [1989]).

In this paper we focus on the relationship between business strategy and human resource management [HRM] strategy and the impact that this relationship has on performance in U.S.-based Japanese subsidiaries. We first describe a theoretical framework that incorporates recent thinking in strategy and international human resource management and explicitly attempts to explain the relationships between business-level strategies and human resource management strategies and outcomes. We then test this model in a study of business strategy-HRM linkages in sixty-four U.S.-based Japanese subsidiaries.

This research serves several valuable functions. First, it provides an expanded empirical platform for analyzing the actions of Japanese firms in the U.S. The behaviors of Japanese subsidiaries have a dynamic impact on the U.S. economy and on how U.S. firms are managed. Numerous books and articles (cf., Lincoln & Kalleberg [1990]; Ouchi [1981]; Pascale & Athos [1981]; Sethi, Namiki & Swanson [1984]; Sullivan [1992]) have detailed how Japanese managerial practices – many specifically related to human resources – may or may not be effective in the U.S. While most of these posit a relationship between strategy and HRM policies, many are unclear as to the specific relationships and offer little systematic data to support their contentions. This paper explicitly examines the relationship between subsidiary business unit strategy and HRM strategy and the link to HRM outcomes and firm performance.

A second beneficial function served by this study is the insight it provides regarding organizational activity in environments of heightened uncertainty. The prevailing theoretical assumptions underlying conceptual and empirical work on the connections between HRM practices and business strategy are ones of contingency [Baird & Meshoulam 1988; Lengnick-Hall & Lengnick-Hall 1988]. These assumptions are twofold. First, it is assumed that the selection and mix of human resource practices are determined by the specific strategy a firm adopts, which is itself influenced by environmental constraints. Second, it is assumed that firms achieving a tighter fit between environmental constraints, strategy requirements, and HRM actions will perform better than those that do not. Achieving a fit between environment, strategy and HRM is difficult for most business units under normal circumstances. Under conditions of increased diversity and uncertainty, a situation encountered by TNCs, the challenge is even greater. Regulatory differences between home and host country, cultural differences between the headquarters personnel and the host country labor force, and geographical distance from the parent company all imbue the activities of environmental scanning, strategy formulation, and policy implementation with substantial ambiguity. Achieving fit under such conditions is likely to be simultaneously more important and more difficult to accomplish.

In the next section we develop a theoretical framework of the linkages between business strategy and HRM strategy. This framework is used to generate hypotheses that we then test with data from U.S.-based Japanese subsidiaries.

THEORETICAL FRAMEWORK

A general model is employed to conceptualize linkages between environment, business strategy, HRM strategy and performance. Business strategy can be thought of as a set of decisions about the direction of a firm. Firms select business strategies in accordance with evaluations they make about their distinctive competencies and the environment in which they wish to compete [Mintzberg 1990]. Implementation of a business strategy necessitates breaking it down into smaller, manageable components. This process of decomposition occurs as the various functional or divisional units within the organization develop responses specific to their activities. Functional units within an organization establish underlying strategies which provide a foundation that helps to guide them in the development and implementation of policy [Beechler, Bird & Raghuram 1993].

Although the model recognizes relationships between organization-level business strategy and various functional strategies, the focus of this study is solely on the human resource management function. In short, the interest is specifically in the relationship between business strategy, HRM strategy, and performance.

While each firm tailors its particular business strategy to fit its unique distinctive competencies, needs, and circumstances, it is useful to apply a simplifying framework when developing theoretical constructs [Daft 1984; Dubin 1978]. Consistent with previous studies in this area [Miles & Snow 1984; Olian & Rynes 1984; Sonnenfeld & Peiperl 1988], we adopt Miles and Snow's [1984] typology of *Prospector, Defender* and *Analyzer* strategies. We do so for two reasons. First, extensive use of this classificatory scheme in prior empirical efforts [Gupta & Govindarajan 1986; Hambrick & Mason 1984; Miles & Snow 1978] has demonstrated its utility is explaining general strategic orientations at the business level. Second, the typology appears to fit well with the strategic orientations of subsidiaries. Foreign direct investment occurs for a variety of reasons, but, in general, three of the most commonly identified rationales are: 1) to develop new markets; 2) to solidify current market positions; and 3) to simultaneously maintain current market position, while expanding into new markets. These orientations toward foreign direct investment are consistent with the Miles and Snow typology, where the Prospector pursues market expansion and innovation, the Defender strives to maintain market position, and the Analyzer seeks some combination of market expansion/innovation while endeavoring to preserve stability in existing markets.

Although they do not discuss HRM in detail, Miles and Snow [1984] identify three pure types of strategies and their key human resource implications. Defenders create a secure market share with moderate, steady growth. To support their strategy, Defenders rely heavily on internally developed human resources: employees are carefully selected, placed and trained. In addition, they are expected to be with the company for much, if not all, of their careers.

The second strategy is the Prospector. Firms employing this type of strategy are characterized by rapid growth and continual resource deployment/redeployment, particularly of management and technical personnel. To support this strategy, human resource units perform an entrepreneurial role, helping to identify and quickly develop crucial human resources through the rapid movement and alteration of assignments. Key human resources are brought in from outside as well as developed internally.

The third strategic type identified by Miles and Snow is the Analyzer. In Analyzers, management believes that the firm can compete not only in the early phase of product development when the emphasis in on uniqueness, but later on as well, when efficient mass production becomes necessary to be competitive. For mature products and production processes, the human resource unit plays the training and maintenance role appropriate to the Defender strategy by using accurate placement and appraisal devices. For innovative developments, the human resource unit plays a more developmental role by designing flexible and enriching team structures and processes.

Drawing on the work of Miles and Snow, the model predicts that when a firm's strategy is congruent with the external environment, firm performance will be higher than when the business strategy is not. Consistency between a business strategy and the external environment is only a first step, however. Consistency at this interface does not directly influence firm performance. The second half of the process of aligning a firm with the environment occurs in the implementation of the strategy. It is the enactment of a business strategy, through the development and application of functional strategies within the various divisions or units, which also determines firm performance [Hrebiniak & Joyce 1984]. In other words, external fit is achieved, in part, as a consequence of internal fit.

Although the linkages in the model could be applied to any and all of the functional areas within a firm, this study focuses solely on the HRM function. While many classificatory schemes exist for typing HRM, we use one that reflects the philosophical approach taken to manage human resources [Carroll 1991; Cascio 1991; Dyer 1984; Schuler 1988; Schuler & Jackson 1987b]. This approach is consistent with previous theoretical and empirical writings regarding Japanese and American business practices [Hatvany & Pucik 1981; Kagono, Nonaka, Sakakibara & Okumura 1985] and defines three kinds of HRM strategy [Carroll 1991; Cascio 1991; Schuler 1988]. A *Utilizer* strategy is predicated on minimal commitment and high skill utilization. It seeks to deploy the human resources of a firm as efficiently as possible through: 1) acquiring and dismissing personnel based on short-term needs; and 2) matching employee skills to specific task requirements. An *Accumulator* strategy is based on maximum involvement and skilled execution. It attempts to build up the human resources of the firm through: 1) the acquisition of personnel with large, latent potential; and 2) the development of that latent potential over time in a manner consistent with the needs of the organization. Finally, a *Facilitator* strategy is founded on generating new knowledge and new knowledge creation. It seeks to develop the human resources of the firm as effectively as possible through: 1) the acquisition of self-motivated personnel; and 2) the encouragement and support of personnel to develop, on their own, the skills and knowledge which they, the employees, believe are important.

To clarify the match of business strategy to HRM strategy, it is useful to consider the organizational requirements that a selected business strategy may impose and the proposed policy implications that a given HRM strategy might suggest. These are presented in Table 1.

In the following sections we consider the relationship between specific combinations of business strategy and HRM strategy. We show how particular *ideal*

TABLE 1
Relationship between Business Strategy, Organizational Requirements, and HRM Strategy.

Business Strategy	Organizational Requirements	Human Resources Strategy
Defender Strategy		**Accumulator Strategy**
- Narrow product markets - Efficiency orientation	Maintenance of stability Internal focus Limited environmental monitoring Centralized control systems Standardized operating procedures	*Strategy based on building maximum involvement and skilled execution.* - Acquisition of employees with large latent potential - Development over time of employee abilities, skills & knowledge
Analyzer Strategy		**Facilitator Strategy**
- Pursue new markets - Maintain presence in existing markets	Flexibility Administrative differentiation Intensive & comprehensive planning Offer unique products at low cost	*Strategy based on new knowledge and new knowledge creation.* - Acquisition of self-motivated personnel - Encourage & support self-development of abilities, skills & knowledge - Coordinate between accurate placement and flexible team structures
Prospector Strategy		**Utilizer Strategy**
- Continuous search for new markets - External orientation - Product/Market innovators	Constant state of change Extensive monitoring of environment Decentralized control systems Low degree of structural formalization Rapid resource deployment	*Strategy based on minimal commitment and high skill utilization.* - Employ ready-to-use talent - Move employee to match abilities, skills & knowledge to specific tasks

combinations derive from the fit between organizational requirements imposed by a given strategy and the ability of a given HRM strategy to address those requirements.

Defender Business Strategy/Accumulator HRM Strategy

Firms with a Defender strategy limit their search for new opportunities and, instead, focus attention internally on ways to enhance organizational effectiveness [Miles & Snow 1978]. Given a narrow product market domain and an orientation toward efficiency, organizational requirements gravitate in favor of maintaining stability and focusing on internal operations. As a consequence, there is likely to be limited environmental monitoring. Finally, central control, high degrees of formalization, and elaborate control systems are hypothesized to promote organizational effectiveness [Miles & Snow 1978].

An Accumulator HRM strategy, based on building maximum involvement and achieving skilled execution, serves Defender needs because it focuses on providing skill development in an evolutionary fashion in accordance with the firm's slowly evolving human resource needs. Its concern is on the acquisition of employees perceived to possess large latent potential. Once latent potential is acquired, the attention then shifts to developing ability, skill and knowledge in ways that will serve company purposes.

The internal development of human resources over time requires the firm to exercise care in the selection of new employees. The firm searches for both human potential and personal fit and the relationship between employer and employee is expected to be longterm. The result is an emphasis on job-security and the application of compensation and promotion policies containing a strong seniority component. These, in turn, call for extensive training to develop potential which, because it is directed at internal fit, is biased toward on-the-job training and the development of a skill set that is firm-specific.

Analyzer Business Strategy/Facilitator HRM Strategy

Analyzers represent organizations that operate in relatively stable as well as changing product-market domains [Miles & Snow 1978]. Consequently, these firms must identify and pursue new product-market opportunities while simultaneously maintaining a presence in existing domains. The pursuit of effectiveness in both areas necessitates an ability to be efficient yet flexible in production technologies. Accommodation of both stable and dynamic areas of operations requires similar differentiation with regard to human resources.

A Facilitator strategy fits the organizational requirements of Analyzer firms because it accommodates the management of dual pressures imposed by an Analyzer strategy. The pursuit of new markets requires an infusion of new skills and talents into the firm, encouraging hiring from the external labor market. Maintenance of existing product lines, by contrast, necessitates the internal development of employees and encourages the development of an internal labor market. Consequently, staffing policies will likely be a mix of both internal and external selection. Firms with a Facilitator strategy may seek to offset the potential schizophrenic outcomes of a mixed staffing policy by carefully recruiting employees with a desire for self-development. By encouraging and supporting self-development, a firm can focus its activities more fully on the accurate placement of personnel and the design of flexible teams.

Prospector Business Strategy/Utilizer HRM Strategy

Prospector firms compete in broad product-market domains characterized by continual states of flux. Constant product-market innovation reflects a response to this dynamic domain, requiring the capacity to closely monitor external events [Miles & Snow 1978]. Additionally, the ability to develop new products and enter new markets requires creativity and idea generation. Decentralized control systems and rapid deployment of resources further characterize firms employing Prospector strategies.

Given the volatility of their environments, Prospector firms are expected to employ a Utilizer HRM strategy geared towards providing appropriate, readily available skills consistent with the companies' constantly changing needs. Such an approach places minimal emphasis on employee commitment while trying to achieve high skill utilization. As a consequence, selection policies focus on closely matching skills to immediate task requirements. The need for rapid deployment of resources in response to market development and innovation also reduces emphasis on training. The view of employees as another resource of the firm and the emphasis on resource utilization and deployment encourage the development of appraisal and reward systems based on results [Kagono et al. 1985]. Additionally, compensation is likely to be referenced to the external market.

In terms of the impact of specific combinations of business strategy and HRM strategy on organizational performance, Table 1 presents suggestions regarding the appropriate match between each business strategy and HRM strategy type. Miles and Snow [1978] have argued that their typology does not imply one best business strategy, any of the three strategy types can lead to high firm performance. Consequently, no distinction is made as to whether or not one particular *ideal* match will outperform another, rather it is proposed that firms with appropriate matches will outperform firms with mismatches.

Proposition 1: Firms with ideal matches between business strategy and HRM strategy (i.e., Prospector-Utilizer, Defender-Accumulator, and Analyzer-Facilitator) will perform better than firms with mismatches.

HYPOTHESES

The business strategy/HRM strategy match may influence subsidiary performance on several dimensions. Below we identify two aspects of subsidiary performance and propose specific hypotheses.

HRM-Related Outcome Measures

The contingency model indicates that business strategy is translated by each functional unit into a local strategy that influences performance in that functional area. While performance in each functional area, in turn, affects performance at the firm level, it constitutes only one of several factors contributing to firm performance. Consequently, in the case of this study, we anticipate that the strongest effects of a business strategy/HRM strategy match will be on outcomes most closely tied to HRM activities.

In the context of subsidiary operations, four HRM-related outcomes appear important. These four include employee morale, tenure, promotion, and turnover. Each is considered below.

Employee morale constitutes one outcome that is likely to be influenced by the business strategy/HRM strategy match. Previous research (cf., Tung [1981]) on foreign subsidiary HRM activities has noted that cultural differences between parent and subsidiary countries, the presence of parent-company managers, and perceptions by host country employees of a lack of control and autonomy frequently contribute to a low level of morale. A proper combination of business strategy and HRM strategy should increase morale by helping to create in the minds of subsidiary employees a sense of coherency and rationality in what the subsidiary is trying to accomplish and how it is trying to accomplish it. Indeed, Pucik et al. [1989] note that one of the most frequently cited sources of local national employee dissatisfaction within U.S.-based Japanese subsidiaries is not knowing why things are done or how they fit into a bigger picture.

Hypothesis 1: Japanese subsidiaries with ideal matches between business strategy and HRM strategy will experience higher levels of employee morale than subsidiaries with mismatches.

One indication that a firm has effective HRM functions is its ability to retain and promote employees. Firms that are able to match business strategy and HRM strategies will be more likely to select people appropriate to the strategy they are pursuing. Better selection and retention suggests higher levels of employee tenure and lower levels of turnover. Moreover, selection of employees who match subsidiary needs should also lead to an increased likelihood of promotion for such employees.

Hypothesis 2: Japanese subsidiaries with ideal matches between business strategy and HRM strategy will have higher levels of average employee tenure than subsidiaries with mismatches.

Hypothesis 3: Japanese subsidiaries with ideal matches between business strategy and HRM strategy will have higher rates of employee promotion than subsidiaries with mismatches.

Hypothesis 4: Japanese subsidiaries with ideal matches between business strategy and HRM strategy will experience lower rates of employee turnover than subsidiaries with mismatches.

Firm Performance Measures

The business strategy-HRM strategy match may affect different aspects of performance at the firm level. As we previously noted, however, firm performance is influenced by a broad array of factors. It is also probable that some aspects of firm performance may be more strongly affected by specific factors. By decomposing firm performance into several variables we should be better able to get at the issue of which performance factors may be most influenced by the business strategy-HRM strategy match.

Subsidiary profit and sales growth are two financial measures frequently used in evaluating company performance. Companies, including foreign subsidiary operations, with business strategy/HRM strategy matches should manage their resources more efficiently and effectively, thereby reducing their operating costs. Moreover, firms with ideal matches should be more effective in aligning human resources to their overall strategic thrusts, thereby responding more appropriately to environmental constraints and opportunities. Fit between business strategy and HRM strategy is therefore predicted to lead to increased subsidiary sales and greater profits.

Hypothesis 5: Japanese subsidiaries with ideal matches between business strategy and HRM strategy will achieve higher profits than subsidiaries with mismatches.

Hypothesis 6: Japanese subsidiaries with ideal matches between business strategy and HRM strategy will experience higher sales growth than subsidiaries with mismatches.

It should also be recognized, however, that subsidiaries do not always act with complete autonomy. Sometimes they pursue goals mandated by the parent organization that are not directly related to financial objectives. For example, a parent firm may establish goals for its subsidiary, such as developing new products or improving product quality, which do not lead to enhanced profit or sales for that subsidiary in the short term, but which benefit the larger organization. Parent company objectives for the subsidiary should enhance the strategic focus of managers in the subsidiary and, to the extent that subsidiary managers in turn align the subsidiary's HRM strategy with these objectives, the subsidiary should do better in reaching them.

Hypothesis 7: Japanese subsidiaries with ideal matches between business strategy and HRM strategy will experience higher levels of performance on parent-prescribed objectives than subsidiaries with mismatches.

A second way of looking at firm performance is in more general terms. Because its activities are directed at people throughout an organization, HRM is purported to have wide-ranging effects within the organization. Rather than thinking of performance in terms of specific outcomes, it may be useful to think of it as having overarching impact. If HRM activities do have wide-ranging effects, then firms with a good match between strategy and HRM ought to do better overall than mismatched firms.

Hypothesis 8: Japanese subsidiaries with ideal matches between business strategy and HRM strategy will achieve higher overall performance than subsidiaries with mismatches.

A second generalized approach to conceptualizing subsidiary performance is to evaluate how an organization is doing relative to its competitors. While firms with matches may not outperform their rivals when those rivals also have ideal matches, we would expect firms with mismatched strategies to perform more poorly than their competitors.

Hypothesis 9: Japanese subsidiaries with ideal matches between business strategy and HRM strategy will perform better relative to their competitors than will subsidiaries with mismatches.

METHODOLOGY

Sample

A questionnaire survey of non-randomly selected senior personnel managers in U.S. subsidiaries of Japanese firms was carried out between November 1990 and

February 1991. Questionnaires were mailed to 219 of approximately 400 Japanese-owned companies in the United States that had expressed interest in HRM issues in an earlier KPMG Peat Marwick study of labor practices. Roughly equal numbers of manufacturing and service firms with 100 employees or more were selected for inclusion in our study. After partitioning, the sample was divided along two strata: 1) manufacturing and non-manufacturing firms; 2) geographic distribution across the United States, with equal numbers of manufacturing and non-manufacturing firms drawn from the East Coast, West Coast, and Midwest regions of the U.S.

The expressed interest of these firms in HRM-related issues raises the question of whether or not they are representative of the larger population of Japanese subsidiaries in the U.S. To the extent that an expressed emphasis on HRM issues may predispose firms to align their business and HRM strategies, the differences between matched and unmatched firms in this sample would be lessened, making our test of hypotheses a conservative one.

Sixty-four of the 219 firms returned usable surveys, for a response rate of 29%. This return rate is roughly comparable to other studies with similar objectives [Hitt, Ireland & Palia 1982; Dean & Snell 1991]. An analysis of basic characteristics of respondent and non-respondent firms in terms of type [manufacturing vs. non-manufacturing], geographic location, and company size revealed no significant differences. The 64 firms included 33 manufacturing and 31 non-manufacturing firms. A profile of basic firm characteristics is presented in Table 2.

TABLE 2
Profile of Basic Characteristics of Japanese Subsidiaries in the Sample

		Mean (Std Dev.)
Manufacturing/Service*	Manufacturing	31
	Service	33
Parent Company Sales Worldwide in 1989		$5,648 million ($1,524 million)
Subsidiary Sales in 1990		$1,287 million ($214 million)
Mode of Entry (% of total)†	Greenfield	73.1
	Merger	15.4
	Takeover	11.5
Number of Years Parent Company has Operated in US		14.2 (9.4)
Age of Subsidiary		10.8 (6.6)
% Japanese Ownership in 1990		98.2 (6.7)
Number of Employees in Subsidiary		660.1 (1243.6)

*indicates the number of firms in each category
†indicates the percentage of firms in each category

Our original objective was to obtain two questionnaires from each firm – one from a Japanese manager and one from an American HR manager. However, for forty-one companies we received a completed questionnaire from only the

American manager. For the remaining twenty-three, we received responses from both the Japanese and American managers. To test for possible differences in responses due to nationality for these twenty-three firms we conducted an analysis to test for interrater agreement using the procedure followed by Shortell and Zajac [1990] and by Kotha, Dunbar and Bird [forthcoming]. As 82% [228/276] of the responses on self-report items were either identical or within one interval of one another, we concluded that a satisfactory degree of interrater reliability existed. In the interest of consistency across observations, only the American responses were retained.

Strategy Measures

Business Strategy. A modified version of Miles and Snow's [Hrebiniak & Joyce 1984] typology including Prospectors, Defenders and Analyzers was used to measure respondents' business strategy and classify them into nominal categories. HRM managers read brief descriptions of strategy types and were asked to identify the one that most closely resembled their firm's strategy. Self-typing using nominal scales for the measurement of Miles and Snow strategic archetypes is both a common and accepted methodology [McDaniel & Kolari 1987; McKee, Varadarajan & Pride 1989; Segev 1987a, 1987b; Shortell & Zajac 1990; Snow & Hrebiniak 1980].

HRM Strategy. Respondents' HRM strategies were identified in a fashion similar to that used to measure business strategy. After reading general descriptions of HRM strategy types [Schuler 1988], respondents indicated which one most closely resembled the HRM strategy employed at their firm. The result was a nominal variable with three categories.

HRM Outcome Measures

In the case of outcomes directly related to HRM practices, it was possible to obtain objective, quantitative data on all but one of the variables. *Employee Morale,* the extent to which employees, in the firm as a whole, exhibit a positive affect toward their work, was measured using a five-point scale ranging from "very low" to "very high."

Although evaluation of employee morale may be considered an inherently subjective task, the respondents–human resource managers–are charged with making such assessments as a function of their job and are experienced at doing so. In this respect, though a subjective evaluation, the measurement of employee morale used in this study is made by individuals who may be considered experts at doing so. Having only a single measure of employee morale is problematic and would be a critical issue if our concern was with the level of employee morale. However, our interest is in the *difference* in level between matched and unmatched firms. Because there is no obvious reason for HRM managers in matched firms to assess employee morale more highly than HRM managers in unmatched firms it was felt that a single-item measure was acceptable.

Average length of tenure is a measure of the effectiveness of HRM policies because it reflects a subsidiary's ability to attract and retain appropriate employees.

This variable was calculated by taking the average length of tenure of all managerial-class U.S. employees in the subsidiary.

A third outcome of effective HRM activities is increased opportunities for individual growth and career advancement. Annual rates of *promotion for top managers* and *promotion for all other managers* were used to provide two measures of this variable. Promotions were measured as the average percentage of managers receiving promotions annually.

A final measure of an effective business strategy/HRM-strategy match is the extent to which firms can avoid unnecessary quits or layoffs. While it is true that employee exits can constitute a positive outcome for both an organization and an employee under some circumstances, in a more general sense turnover represents at the very least the presence of inadequacies in selection practices or HRM planning. As with promotions, *turnover* was measured for both top managers and all other managerial class employees, and was calculated as the average annual turnover rate for each group.

Subsidiary Performance Measures

Because Japanese companies are quite sensitive about publicly reporting financial data, we were compelled to use less intrusive self-reported measures. This approach was also necessary because a majority of the firms sampled are wholly-owned subsidiaries and, consequently, are not required to divulge such information to regulatory agencies or make it public in other ways. While self-report data may be subject to response bias in some circumstances, Dess and Robinson [1984] suggest that, in the absence of objective data, self-report measures constitute an acceptable substitute and are often equally reliable.

On a five-point scale ranging from "very low level of performance" to "very high level of performance," managers were asked to indicate the level of their subsidiary's performance with regard to specific outcomes. These included *subsidiary profit* and *subsidiary sales volume.* Additionally, each manager identified the parent organization's most important criterion for evaluating the success of the subsidiary's operations–parent-prescribed objective–and, using the same scale as above, rated their firm's performance on that criterion for 1989.

In addition to these outcome-specific measures, respondents also rated their subsidiary's *overall performance* and its *performance relative to major competitors in the U.S.* These ratings were also measured on a five-point Likert-type scale.

The means, standard deviations, and correlations for the HRM and subsidiary performance variables are presented in Table 3.

Analysis

The analytical methods used in this study were *chi*-square and *t*-tests of differences between means. These are appropriate techniques, given the size of the sample and the nature of the hypotheses to be tested. Analyses focused on identifying and testing for the presence of fit between business strategy and HRM strategy, followed by an investigation into the relationship between business strategy/HRM strategy match and performance.

TABLE 3
Means, Standard Deviations and Correlations of HRM and Subsidiary Performance Variables

	Mean	Std Dev.	1	2	3	4	5	6	7	8	9	10	11
1. Performance on Parent Objectives	3.27	1.43	1.00										
2. Subsidiary Profit	2.59	1.50	.69***	1.00									
3. Subsidiary Sales	3.28	1.22	.56***	.61***	1.00								
4. Employee Morale	3.21	1.08	.35**	.27	.13	1.00							
5. Average Tenure	4.19	6.25	.18	.11	.13	-.02	1.00						
6. Top Management Turnover (annual %)	5.87	11.72	-.31*	-.23	-.08	-.43***	.27	1.00					
7. Management Turnover (annual %)	10.66	16.84	.05	-.17	.03	-.03	.12	.07	1.00				
8. Top Management Promotion (annual %)	8.60	17.89	.11	.21	.03	.21	.09	.15	-.12	1.00			
9. Management Promotion (annual %)	20.63	24.24	.18	.26	.22	.33*	-.19	-.21	.26	.49**	1.00		
10. Overall Subsidiary Performance	3.10	1.14	.66***	.72***	.54***	.43***	.22	-.24	-.25	.11	.05	1.00	
11. Performance vs. Competitors	3.17	1.00	.52***	.55***	.49***	.54***	.00	-.31*	-.11	.20	.27*	.80***	1.00

*$p<.10$; **$p<.05$; ***$p<.01$

RESULTS

The initial analysis investigated whether or not Japanese subsidiary business strategies matched up with HRM strategies in the combinations predicted in Table 1, i.e., Prospector-Utilizer, Defender-Accumulator, Analyzer-Facilitator. Table 4 reveals that only ten of the sixty-four firms employed a Prospector business strategy. The remaining fifty-four subsidiaries adopted either Analyzer or Defender business strategies, suggesting a generally conservative approach to product and market innovations among the Japanese subsidiaries in our sample.

TABLE 4
***Chi*-Square Test of Business Strategy/HRM Strategy Match**

		HRM Strategy			
		Utilizer	Accumulator	Facilitator	Row Total
Business Strategy	Prospector	**1***	5	4	10
	Defender	2	**14**	9	25
	Analyzer	7	7	**15**	29
	Column Total	10	26	28	64

Chi-square = 7.090, 4 df, $p < .1312$
*Boldfaced numbers denote predicted matches.

In terms of managing their human resources, ten firms used a Utilizer strategy. The remaining fifty-four employed either an Accumulator or Facilitator strategy, indicating an orientation toward long-term investment in human resources.

Results of the *chi*-square test of the business strategy/HRM strategy matches are also shown in Table 4. Overall, thirty of the sixty-four subsidiaries had combinations hypothesized as ideal. In summary, the findings indicate that thirty of sixty-four firms, or 47%, have business strategy/HRM strategy matches, which we have proposed will lead to higher performance. Moreover, Japanese subsidiaries in the U.S. appear to rely on conservative business strategies and HRM strategies emphasizing a long-term orientation toward human resources. These findings are consistent with those of prior empirical investigations into the behavior of Japanese firms domestically within Japan [Kagono et al. 1985].

In the second phase of the analysis, firms were divided into two sets, those with matched strategies and those with unmatched ones. Differences in means tests were then conducted on the six HRM-related performance measures. These results are presented in Table 5.

Among the HRM-related outcome measures, the findings are mixed, although generally supportive of the hypotheses. The results, shown in Table 5, support Hypothesis 1: matched firms experienced significantly higher levels of employee morale than did unmatched firms. Also, the prediction that subsidiaries with hypothesized matches will experience significantly longer employee tenure than unmatched firms (Hypothesis 2), is strongly supported. Employees in subsidiaries that conformed to proposed ideal matches between business strategy and HRM strategy experienced significantly longer tenures than employees in firms that were unmatched. Results pertaining to our third hypothesis, that managers in matched firms would experience higher levels of promotion, were in the predicted direction but not statistically significant. Finally, strong support was found for Hypothesis 4: subsidiaries with matched strategies experienced substantially lower rates of turnover than their unmatched counterparts.

TABLE 5
Means, Standard Deviations and *t*-Statistics for Matched and Unmatched Firms on HRM Outcome Measures and Firm Performance Measures

Variables	Matched† Mean (s. d.)	Unmatched Mean (s. d.)	*t*-test of Means Differences
HRM Performance			
Employee Morale	3.285	3.111	2.33*
	(1.271)	(.832)	
Average Length of Tenure	5.158	3.167	18.94***
	(8.636)	(1.248)	
Promotion of Top Managers	11.85	9.333	1.15
	(16.449)	(17.634)	
Promotion of Other Managers	22.638	19.750	.669
	(25.947)	(23.481)	
Turnover of Top Managers	6.429	5.222	2.01*
	(13.522)	(.546)	
Turnover of Other Managers	3.050	14.89	18.94***
	(5.539)	(24.108)	
Firm Performance			
Subsidiary Profit	2.375	2.676	1.57
	(1.204)	(1.510)	
Subsidiary Sales	3.353	3.216	1.48
	(1.320)	(1.084	
Performance on Parent-prescribed Objectives	3.312	3.212	1.23
	(1.250)	(1.386)	
Overall Firm Performance	3.208	3.084	1.52
	(1.211)	(.909)	
Performance versus Rivals	3.222	3.059	1.68*
	(.807)	(1.045)	

*$p < .10$; ***$p < .01$
†Matched: N=30; Unmatched: N=34

Hypotheses 5 through 9 dealt with the relationship between subsidiary performance and the business strategy/HRM strategy match. Table 5 also presents the results for the *t*-tests of differences between means for matched and unmatched firms on firm performance. Hypothesis 5 was not supported by the findings. In fact, unmatched subsidiaries report slightly better performance on profit than matched ones.

Results for Hypotheses 6 through 8 are in the predicted direction, but not statistically significant. The one subsidiary performance measure where firms with matched strategies did outperform unmatched ones at a significant level was in performance versus rivals. Thus, the results of the analysis support Hypothesis 9.

In the case of Hypothesis 6, which stated that matched firms would experience higher sales growth than unmatched firms, there arose a question as to whether the weak findings might not reflect the possibility that growth was directly influenced by the business strategy, the logic being that Prospectors might possibly experience higher levels of growth than Analyzers or Defenders. This is a distinct possibility. However, adoption of a Defender strategy does not necessarily mean that a firm will not pursue growth. One way of maintaining market position is by keeping up with or outpacing the growth of one's competitors. The distinctive differences between Prospectors and Defenders, while perhaps involving some variance with regard to an emphasis on growth, revolve more around product and market innovation. Defenders seek growth through defense of position within an existing product domain, whereas Prospectors seek growth through the development of new products or new product domains.

One way to test for the possible confounding effects of comparing matched versus unmatched firms across different strategy types would be to conduct a within-type analysis. Unfortunately, the small sample size, particularly in the case of Prospectors, negated the possibility of doing this effectively. However, post hoc within-type comparative assessments appeared to confirm our findings from the pooled analysis.

The absence of, or weak support for, the hypotheses linking HRM strategy match with subsidiary performance may be attributable to the contributing influence of other factors outside the HRM function. We therefore examined other characteristics of matched and unmatched firms to determine if moderating factors influencing performance were present. Though not shown here, tests of the influence of parent and subsidiary size, subsidiary age, level of capitalization, initial mode of entry, and type of industry were carried out. Neither size of the parent nor subsidiary, nor age of the parent or subsidiary, nor type of industry – manufacturing or service – were found to differ significantly between matched and unmatched firms.

We also explored the possibility that some of the findings might be due to the influence of either business strategy or HRM strategy alone as opposed to the match between the two. To do this we recalibrated the two strategy variables using ordinal measures in place of the original categorical measures to generate Spearman rank correlations with the performance outcome measures. In the case of business strategy, the Miles and Snow archetypes were rank ordered in terms of the degree to which they favor product/market innovativeness, with Prospectors being greatest, then Analyzers, and Defenders being least. This characterization is consistent with Miles and Snow's [1978] original presentation of the typology and with its subsequent interpretation and use [Hambrick 1983]. Similar treatment was applied to the Schuler typology of HRM strategies. The primary dimension along which the three types can be differentiated is the emphasis on, and investment in, training and development [Beechler & Bird 1994] with Accumulators investing and emphasizing training the most, then Facilitators, and Utilizers emphasizing and investing the least. The results of the Spearman rank correlation analysis of business strategy, HRM strategy and the performance outcome measures is reported in Table 6.

Hypothesis 3 held that subsidiaries with an ideal match would have higher rates of employee promotion. It is conceivable that business strategy alone might explain differences between matched and unmatched firms in terms of rates of promotion, with the expectation being that promotions might be more prevalent in Prospectors as opposed to Defenders. However, a consideration of the results in Table 6 reveals that the relationship between the two variables is statistically insignificant. In a similar vein, because the Utilizer HRM strategy focuses on the efficient deployment of personnel, there was some concern that the findings favoring Hypothesis 4 might derive from a direct influence between turnover and HRM strategy. Table 6 indicates that this is not the case. Indeed, neither business strategy nor HRM strategy had a statistically significant relationship to the HRM or firm performance variables. This post hoc analysis further strengthens the argument that it is the match between the two strategies that is important.

TABLE 6
Spearman Rank Order Correlations for Business Strategy, HRM Strategy and the Performance Measures

	Business Strategy	HRM Strategy
1. Performance on Parent Objectives	.14	.00
2. Subsidiary Profit	-.10	.17
3. Subsidiary Sales	.22	-.01
4. Employee Morale	-.03	.00
5. Average Tenure	.03	-.13
6. Top Management Turnover (annual %)	-.19	-.17
7. Management Turnover (annual %)	.01	.01
8. Top Management Promotion (annual %)	-.08	-.19
9. Management Promotion (annual %)	.00	-.07
10. Overall Subsidiary Performance	.07	.04
11. Performance vs. Competitors	.20	.03

DISCUSSION

Employing a contingency approach, we have argued that performance will be higher among Japanese subsidiaries that are able to match their business strategy to an appropriate HRM strategy. The findings offer firm, but guarded support for this proposition. Subsidiaries with matched combinations did outperform their unmatched counterparts, particularly with regard to HRM-related outcomes. Matching business strategy to HRM strategy is associated with superior HRM outcomes. However, there appears to be less impact on organization-level subsidiary performance. Consequently, the extent to which the business strategy-HRM strategy linkage matters to organizational-level performance requires further investigation.

Beyond findings of statistical significance and support for several hypotheses, this study raises a number of other points that warrant discussion. Of particular interest are the findings regarding the prevalence of particular business strategies and HRM strategies among our sample firms. In terms of business strategy, fifty-four of the sixty-four firms were either Defenders or Analyzers. This distribution seems consistent with previous empirical work on Japanese firms that suggests they are more inclined to respond in an incremental and reactive fashion to changes in their external environment [Kagono, Nonaka, Sakakibara & Okumura 1985].

This conservative tendency may be heightened in U.S.-based subsidiaries as a consequence of Japanese MNCs' inexperience in managing operations in a foreign context. The average subsidiary in the sample was only ten years old, suggesting that many are still at the steep end of the learning curve. Follow-up interviews by the authors with a number of HRM managers in the participating companies confirmed this interpretation. Several managers noted that not only was the subsidiary young, but that it also represented the parent company's first major operation outside of Japan. As a result, the parent firm was moving forward conservatively and making changes very slowly. One manager noted that his firm spent four years preparing for the opening of its U.S. manufacturing facility. This was in addition to three years spent in considering whether or not to establish a U.S. operation.

Firms were also bunched in terms of HRM strategies, with fifty-four firms adopting either Accumulator or Facilitator strategies. Interviews with HRM managers suggest that this bifurcation was largely the result of the HRM manager's personal orientation. Firms more frequently adopted Accumulator strategies when they hired managers sympathetic to a Japanese management approach and encouraged those managers to apply parent company values.

The influence of the HRM manager was not the only, or necessarily the most, important factor in determining HRM strategy. Differences in HRM strategy appear to reflect underlying company orientations to adaptation. Firms pursuing an Accumulator approach relied heavily on a more traditional Japanese approach to managing subsidiary employees, attempting to transplant many of the practices that they used in Japan. For example, one subsidiary went so far as to translate the parent company's employee handbook into English and then modified it where necessary to comply with U.S. labor laws.

In contrast, firms employing a Facilitator strategy sought adaptation through the interpretation of basic parent company norms and values provided by a U.S. manager familiar with the local environment. Facilitators sought the middle ground between traditional Japanese and traditional American approaches to managing the HRM function. Nevertheless, the underlying foundation appeared to be strongly tilted toward that of the parent company's HRM strategy.

Although in our sample there were only a small number of Utilizers, an HRM strategy most frequently associated with American firms, these companies displayed several distinctive characteristics. Subsidiaries with Utilizer strategies hired experienced U.S. human resources managers and granted them near-autonomy. They sought adaptation through the absorption of local norms and practices into the organization. Human resource managers we interviewed in Utilizers saw their role as one of educating the parent company.

One particularly striking aspect of the distribution of HRM strategies is the relatively large number of firms opting for a Facilitator approach. Japanese firms have often been portrayed as resource accumulators [Kagono et al. 1985], particularly with regard to HRM activities. Researchers have characterized them as focused on acquiring employees possessing large reserves of latent potential which can be developed and tailored to organization needs over time. While some writers [Abegglen 1956; Clark 1979; Dore 1973; Rohlen 1974] point out that Japanese organizations are effective in achieving congruence between individual interests and organizational goals, the tendency has been to characterize this fit in terms of how employee skills and abilities are shaped to match organizational needs. References to Japanese practices aimed at developing human resource potential that take into consideration individual preferences and aspirations are rare. For Japanese subsidiaries in the U.S., it may be that the mix of Japanese organizational values and U.S. sociocultural orientations encourages a more individual-centered approach in the selection of a HRM strategy. The result may be the adoption of a Facilitator approach that allows for greater individual participation in the determination of what and how human resources are to be developed.

Considered in the larger context of theories regarding foreign subsidiary performance, the findings of this study point to a number of important implications. First, though much of the work on subsidiary performance has focused on the need to align the firm with environmental constraints, the importance of internal fit deserves much more attention. Having found that internal fit with regard to the business strategy-HRM strategy match affects performance, there is every reason to assume that similar influences are exerted by matches between business strategy and other functional areas of the subsidiary. To our knowledge this is a line of inquiry that has remained largely unexplored.

This would also seem to suggest that our theories need to be more holistic. The rather lackluster results regarding the impact of the business-HRM strategy match on firm performance point to a need to consider the subsidiary's internal fit as a whole. Given a strong presumption that HRM activities have a deep impact on how a firm performs, the approach taken in this study may be somewhat simplistic. Rather than assuming that the business-HRM strategy match influences only HRM performance and firm performance, it is more reasonable to assume that this match also influences performance in other functional areas. Indeed, mismatches between business strategy and HRM strategy may lead to lowered firm performance indirectly through lowered performance in production, sales and R&D.

The findings of this investigation also have implications for practitioners. Our interviews with HRM managers participating in this study suggest that, at least in the case of Japanese subsidiaries in the U.S., little thought has been given to the need to align business strategy and HRM strategy. In essence, managers at the firms in our sample had not yet developed a view of HRM as a strategic activity and, consequently, did not see a need to align their HRM strategy with the subsidiary's business strategy. Yet it is clear that doing so yields benefits in terms of lower turnover rates, longer employee tenure, as well as higher levels of employee morale. The costs associated with turnover and new employee selection and training ought to encourage HRM managers to focus more attention on the business-HRM strategy match.

Several limitations of this study should be noted. One limitation of this study is that the companies were not chosen randomly from the total population of Japanese subsidiaries operating in the United States, but instead represent a large subset of companies that had previously identified themselves as being particularly interested in HRM issues. Therefore, generalization of this study's findings cannot be made to the total population of Japanese firms operating in the U.S.

Despite significant findings for four of the nine hypotheses, the failure to find stronger support for the impact of the business strategy/HRM strategy linkage appears to be the result of the weak effect of this variable on organization-level performance measures. Though an argument can be made that the power of the statistical analyses was low, ultimately the issue is one of effect size. Given the other factors that affect organization-level performance, the limited strength of the linkage relationship may not be too surprising. Nevertheless, a relationship does appear to exist.

Future research should move forward in several directions. First, the findings of this study demonstrate the influence of internal fit on firm performance. However, little is known about how easy it may be to achieve internal fit, particularly with regard to HRM practices. Beechler, Bird and Raghuram [1993] note that the importance of internal fit may be moderated by several key considerations. The particular strategic orientation of the parent firm and the nature of international competition in which it is involved place differing levels of pressure on a TNC to maintain policies that are consistent across countries and subsidiaries. They note, for example, that TNCs with a strategic orientation centered on cost leadership in industries characterized by global competition will face substantially greater pressure to maintain consistency between parent and subsidiary policies than will TNCs with a strategic orientation based on product differentiation in industries where competition is multidomestic. This suggests that the ability *and* need to achieve internal fit may be moderated by the parent's strategic orientation in combination. In other words, some foreign subsidiaries may find it more difficult than others to match business strategy and HRM strategy. Additionally, the costs involved in failing to achieve a business strategy-HRM strategy match may be larger for some foreign subsidiaries than others. This is an area where further theoretical and empirical work is sorely needed.

A second line of inquiry should focus on the *process* by which subsidiaries achieve internal fit between business strategy and HRM strategy. There is an absence of descriptive evidence regarding how foreign subsidiaries develop HRM strategy or align an existing one with business strategy. Calling for a matching up of HRM and business strategies without an understanding of how to go about doing so would be imprudent. For this reason we strongly suggest that future investigations focus on how foreign subsidiaries go about aligning business and HRM strategies.

CONCLUSION

This study examined linkages between business strategy and HRM practices in Japanese subsidiaries in the U.S. It specifically investigated whether or not fit between a subsidiary's business strategy and its HRM strategy were associated with higher performance. Subsidiaries with matched strategies did perform better on HRM-related outcome measures than those that were unmatched. The relationship between HRM outcomes and firm performance, however, was less clear. Having established a relationship between business strategy/HRM strategy match and some aspects of performance, future research should explore the mechanisms by which this match affects HRM policy formulation and implementation in overseas subsidiaries.

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