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RESEARCH NOTES AND COMMUNICATIONS

PEOPLE MATTER: COMMITMENT TO EMPLOYEES, STRATEGY AND PERFORMANCE IN KOREAN FIRMS

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The human element of enterprise is argued to be a vital resource for strategy execution. We show in a study of Korean businesses how an organization's commitment to its employees' well-being (OCE) can aid in the profitable execution of its positioning strategies. We found that OCE, by itself, sometimes has a weakly positive association with return on assets (ROA). But far more important, we found that ROA is strongly and positively influenced by the interaction between OCE and the dedicated pursuit of Porter's (1980) strategies for achieving competitive advantage: these are cost leadership, marketing differentiation and innovative differentiation. In short, dedicated positioning strategies appear to be executed more effectively where organizations exhibit a high level of commitment to their employees; and conversely, OCE is apt to have a strong impact on ROA only in the context of a dedicated, that is intensive and thorough, positioning strategy.

The strategy literature has called attention to the wide gulf that exists between strategic conception and effective execution (Hamel and Prahalad, 1994; Porter, 1996). Those embracing the resource-based view of the firm have argued that positioning scholars such as Porter (1980, 1985) must pay more heed to the resources required to execute strategies (Barney, 1991; Wernerfelt, 1984; Teece, Pisano, and Shuen, 1997). One such key resource is the human capital of an organization—its workforce. A dedicated and talented workforce may serve as a valuable, scarce, nonimitable resource that can help firms execute an appropriate positioning strategy (Lado and Wilson, 1994). If so, then a firm's commitment to—that is, its care of and devotion to—its human capital may well enhance profitability. Although empirical studies are lacking, this human dimension has received a good deal of conceptual attention of late from scholars of strategy (Fiol, 1991; Hall, 1993; Lado, Boyd, and Wright, 1992; Rumelt, Schendel, and Teece, 1994).

An organization's commitment to its employees (OCE) may be reflected in its care for employee wellbeing and satisfaction, in the fairness and compassion of its rewards, and in its investment in competence development and compensation (Eisenberger, Cotterrell, and Marvel, 1987; Eisen-

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berg, Fasolo, and Davis-LaMastro, 1990; Eisenberg *et al.*, 1986; Organ, 1990; Moorman, Blakely, and Niehoff, 1998; Shore and Wayne, 1993; Steers, 1987: 576–581; Steers and Porter, 1987: 575–583). We believe that these aspects of OCE will be critical to enlisting employees' best efforts at strategy execution. Indeed, recent contributions to the resource-based view of the firm designate the social climate within companies as a vital, competence-building resource (Lado and Wilson, 1994; Wernerfelt, 1984; Prahalad and Hamel, 1990; Barney, 1991; Barney and Zajac, 1994; Hall, 1993). A nurturing climate and the commitment to employees that engenders it have been shown to help firms garner loyalty, dedication, effort, and initiative from their workers, and also to create a sense of community that facilitates collaboration (Eisenberger *et al.*, 1987, 1990; Mowday, Porter, and Steers, 1984; Organ and Konovsky, 1989; O'Reilly and Chatman, 1986; Steers, 1977). All of these responses may facilitate strategy implementation (Barney, 1986; Barney and Hansen, 1994).

This paper investigates the implications for profitability of an organization's commitment to its employees. More specifically, it examines whether OCE can help in the effective execution of coherent positioning strategies. We shall be using the terms execution and implementation in their broadest, most 'bottom-line' senses. That is, we are not concerned with the minute translation of concepts into specific actions, but rather with the avid pursuit of strategic objectives and the dedicated employment of competitive methods to achieve superior financial performance.

This is a study of Korean companies. In Korea, a Confucian work ethic stresses the value of contribution to the community, the work group and the corporation (Choi, 1985; Ko, 1992; Han, 1991; Ungson, Steers, and Park, 1997). But the relationship of a company or superior to employees is one of paternalism. The boss is expected to take responsibility for the development and overall well-being of his or her subordinates (Steers, Shin, and Ungson, 1989: 98–103). Accounts of Korean businesses suggest that such Confucian ethics and paternalism combine to create a climate in which firms that are strongly committed to their employees receive tremendous dedication from them in return (Lee and Lee, 1994). Korean firms, then, appeared to be useful venues for examining the effects of OCE on strategy execution and performance.

COMMITMENT TO EMPLOYEES BRINGS DEDICATION, EFFORT, AND COMMUNITY

As noted, a firm's OCE may be demonstrated in many ways: its overall level of care for workers' emotional and physical wellbeing, its concern for intrinsic job satisfaction and employee development, the ampleness and fairness of its financial compensation, and its willingness to share unusual monetary returns with workers at all levels (Eisenberger *et al.*, 1986, 1990; Moorman *et al.*, 1998; Mowday, Porter, and Steers, 1984; Organ, 1990; Orpen, 1995; Pfeffer, 1993; Williams and Anderson, 1991).

Eisenberger *et al.* (1990), Moorman *et al.* (1998) and Shore and Wayne (1993) found that perceived OCE made employees more conscientious in carrying out their job responsibilities. It also engendered a sense of involvement with the company, and greater employee initiative and innovation—even in the absence of direct rewards. Organ and Konovsky (1989) and O'Reilly and Chatman (1986) found that an organization's commitment to its employees resulted in better 'citizenship' behavior from workers—that is, more dedication to a company, and efforts well beyond the minimum job requirements.

A primary reason for these effects in Korean companies is the sense of community and dedication OCE engenders (Park, 1984; Ko, 1992; Han, 1991). Community is an emotional environment that induces members to cooperate with one another and work towards common objectives (Nisbet, 1962; Brownwell, 1950). Members obtain emotional sustenance by identifying with the community, in this case, the organization. They share a sense of we-ness and dedication to the group, and this emotional attachment can be a strong motivator in performing group-related tasks, in facilitating effective collaboration, and in unleashing initiative (Choi, 1994; Pelfini, 1993).

COMMITMENT AND COMPETITIVE ADVANTAGE

The literature on the resource-based view of the firm has come to focus on human resources as an important source of competitive advantage (Fiol, 1991; Hall, 1993; Lado *et al.*, 1992; Lado and Wilson, 1994; Miller and Shamsie, 1996; Teece *et al.*, 1997). Human resources, these studies argue, can be great assets if people are motivated to use their initiative for the benefit of the organization, and if they demonstrate loyalty to the firm. Again it is noted that such dedication may come in part from a company's commitment to employee care, compensation, and development (Barney, 1986; Choi, 1990; Fiol, 1991; Itami, 1987; Mowday *et al.*, 1984).

Eastern and western researchers alike have begun to embrance the view that OCE, and the effort, initiative, and collaboration it fosters, can help firms to build competences and enhance creativity—in short, to achieve strategic missions and facilitate implementation. For example, Drucker (1993), Fiol (1991), Pfeffer (1993), and Whitney (1994) have recently argued that the emotional and social climate inside a firm can work to enhance productivity and competitive advantage. Indeed, Ghoshal and Bartlett (1995) suggest that in order to build competencies, leaders need to help employees to identify with the larger organization in a way that transcends personal interests and narrow responsibilities. Other scholars maintain that employees with a sense of community have a stronger incentive to collaborate to better coordinate and integrate a firm's skills and resources, and thereby to build special competences (Whitney, 1994). Such collaboration facilitates the development and dissemination of knowledge within the firm and enhances organizational learning (Fiol, 1991; Hall, 1993; Miller and Shamsie, 1996).

In Asia an organization's commitment to its employees along with the sense of dedication and community it brings are believed to be at the very heart of organizational success (Park, 1984; Ko, 1992; Han, 1991; Ungson *et al.*, 1997). Korean scholars in particular have maintained that a company's devotion to its employees will be rewarded by a reciprocal dedication *from* the employees (Shin, 1993; Lee and Lee, 1994, 1995), and that the resulting emotional attachment and level of motivation will serve the company very well.

It is interesting that the recent research on downsizing has failed to confirm its purported benefits to profitability, in spite of the reductions in salary costs it brings (Cascio, 1993). Studies also found that the 'survivors' of downsizing exhibited low morale, distrust of management, and declining productivity; many of these workers became uncooperative and self-absorbed (Brockner, 1988; Cascio, 1993; Heenan, 1989). Again we may have indirect evidence of the possible importance of OCE (see also *Fortune*, 1998).

Unfortunately, there has been little systematic empirical research on the impact of OCE on profitability or on strategy execution. Past studies have explored the influence of OCE or perceived OCE on absenteeism, turnover, job behavior, and corporate citizenship. These works polled many employees in just one or two companies (e.g., Eisenberger *et al.*, 1986, 1987, 1990; Mowday *et al.*, 1984; Organ and Konovsky, 1989; O'Reilly and Chatman, 1986; Steers and Porter, 1987). Macro-level studies of numerous organizations, on the other hand, have relied on anecdote to demonstrate the importance of OCE (Collins and Porras, 1994; Peters, 1994). This research represents a more systematic attempt to examine the strategic and financial implications of OCE.

HYPOTHESES

We expect that OCE will have two kinds of relationships with company performance. The first is a direct one—OCE itself will work to enhance performance, perhaps via its positive impact on effort, initiative, or collaboration. But there may be a second, more interesting, relationship as well: OCE might enhance the value of human resources and thus facilitate the execution of positioning strategies; in turn, dedicated positioning strategies may intelligently focus employee effort, and thus leverage the benefits of OCE. A dedicated and coherent strategy can give committed employees useful goals to work towards and important work to do. But firms without a strategy for attaining competitive advantage may waste their employees' best efforts.

Commitment to employees and firm performance

OCE is expected to create useful emotional bonds between an organization and its employees. If employees believe that their organization cares about them and their happiness, treats them with consideration, and distributes its rewards accordingly, those employees are far more likely to develop positive affective attachments to their employer (Eisenberger *et al.*, 1987, 1990; Levinson, 1965; Smith, Organ and Near, 1983; Orpen, 1995). This holds true at all levels of the organizational hierarchy. Strong affective bonds can induce greater efforts from employees—efforts to work harder, to cooperate more willingly, to work smarter, and to do a better job (Eisenberger *et al.*, 1990; Fiol, 1991; Itami, 1987; Lado and Wilson, 1994). This can lead to greater productivity, more creativity, higher-quality work, and better team decisions (Collins and Porras, 1994; Peters, 1994). In fact, employees' affective attachments to their organizations have been shown to reduce costly absenteeism, to cut turnover, and to improve job performance (see the reviews by Mowday *et al.*, 1984; Steers and Porter, 1987). OCE can also create a climate of trust that allows firms to dispense with costly and demotivating bureaucratic controls (Barney and Hansen, 1994; Whitney, 1994). All of these outcomes may contribute to better financial performance.

Hence our first hypothesis:

Hypothesis 1: OCE will be positively related to financial performance.

OCE, strategy, and performance

Although OCE may have a direct impact on financial performance, our main interest is in its ability to facilitate the execution of dedicated positioning strategies. The reasoning behind this relationship is summarized in Figure 1, and our arguments follow.

Porter (1980, 1985, 1996) argued that firms can only attain competitive advantage and earn superior returns if they pursue a dedicated positioning strategy. Such a strategy must serve customers in a way that is either distinctively superior or more economical than approaches used by rivals. Porter maintained that there are three such strategies: product/service differentiation, cost leadership, or some niche-focused combination of the two. Other researchers have shown that these strategies do indeed have a positive effect on profitability (Dess and Davis, 1984; Miller, 1988; Miller and Friesen, 1986). Porter believes that firms without such a strategy will fail to develop a competitive edge over their rivals, and their financial returns will suffer.

Porter (1980, 1996) argued too that positioning strategies can only be effective if they are pursued with dedication, that is, with thoroughness and intensity. Firms must embrace and excel at multiple elements of each strategy. For cost leadership, these elements might include ongoing programs to reduce operation costs, efficient inventory management procedures, just-in-time manufacture, and related economizing techniques (Dess and Davis, 1984). Only the *simultaneous and avid pursuit of numerous such activities* will count as dedicated cost leadership. Strategies of marketing and innovative differentiation demand the same multifaceted dedication (the Method section lists the different competitive methods used to assess each strategy).

Even the most dedicated competitive strategies, however, may fall flat unless managers and workers at all levels dedicate themselves to their execution. An unmotivated and obstinate staff can scuttle the most coherent and complete strategy, whereas an inspired and committed one can work together to overcome serious obstacles (Organ, 1988; Pelfini, 1993; Peters, 1994). Employees who are committed and dedicated to their firms are more apt to work in harmony towards the same strategic objectives and to make decisions with care and generosity of spirit (Hart, 1992; Lado and Wilson, 1994; Senge, 1990).

Indeed, proponents of the resource-based view argue that positioning strategies such as Porter's (1980) may be worth little without valuable, nonimitable, resources to execute or implement them (Barney, 1991; Hall, 1993; Lado and Wilson,

OCE – – > close community, good collaboration, employee loyalty & dedication, job effort & job involvement, initiative – – > more effective strategy execution × dedicated positioning strategy – – > ROA

Figure 1. Connecting OCE to organizational performance

1994; Wernerfelt, 1984). The advantages of such resources are especially great if they are asset-specific—that is, tied to a particular firm. A loyal, dedicated and cohesive workforce may comprise exactly such a resource (Hall, 1993; Lado and Wilson, 1994; Pfeffer, 1993).

However, one can also make a complementary argument: contrary to Hypothesis 1, OCE and any positive responses it engenders will fail to improve performance where there is no effective positioning strategy to make the best use of employees' efforts (Porter, 1980, 1996). Only when a firm seeks competitive advantage by undertaking a dedicated positioning strategy—one of cost leadership, differentiation, or a combination of the two—will it be able to harness the benefits of execution that accompany OCE.

Hypothesis 2: OCE will contribute the most to financial performance where firms are pursuing a dedicated positioning strategy.

METHOD

Sample

As noted, we chose to study Korean companies because of their communal, paternalistic cultures and the potential importance of commitment to employees therein (Choi, 1985; Ko, 1992; Han, 1991; Lee and Lee, 1994). The industries we selected were textiles, machinery, automotive parts, and electronics. These industries were chosen because of the large number of Korean companies operating in each, and because they represented both thriving and faltering sectors of the economy whose firms exhibited wide variations in strategy and performance. To ensure comparability among our firms we studied only manufacturers; we avoided foreign companies and government-run organizations. And because our interest was in business rather than corporate-level strategy, we selected only single-business enterprises or single-business profit centers of multibusiness companies. Our target population within the four industries consisted of the firms that met the above criteria and were listed in the 1995 Report of the Korean Productivity Centre.

We first approached firms by writing a letter to the chief executives, asking if they and their firms would participate in our study of strategic management practices. Of those approached, 158 agreed to cooperate in the study. Only these firms were sent questionnaires, and 129 of them responded with the requisite two questionnaires each (see below).

The top managers of all firms that agreed to participate were contacted by telephone after they had received the questionnaires. This was done to further gain their commitment to the study, to ensure that the right executives would be responding to the questions, and to go over the instrument to explain any items that might be unclear. This task was performed by four research assistants finishing their Masters' theses in strategic management. The assistants were all trained by the principal investigator in the meaning of the scale items and how to explain them. In all cases, the respondents themselves rated each question and then returned the questionnaires to us.

The topmost executives (directors general or general managers) completed the scales on strategy, environmental uncertainty, and one of our OCE measures, while the most senior vice presidents provided information on our other OCE measure and financial performance. These individuals were chosen because they were the most knowledgeable about the dimensions we were examining. Our use of different respondents within each firm also guarded against common method variance in the testing of our hypotheses.

In order to minimize chances of raters distorting their answers, we assured all respondents that their responses would be kept completely confidential. We promised that we would never reveal to anyone the names of the managers, nor the names of their organizations.

Our final sample consisted of 38 textile firms, 31 machinery firms, 30 automotive parts producers, and 30 electronics firms. Of the respondents, 108 companies were independent firms, while 21 firms were subsidiaries of larger enterprises.

To guard against nonresponse bias we compared the revenues and return on assets (ROA) figures of our sample with those of the four industries for the same year (1994). Industry averages were obtained from the Korean Productivity Centre (Hangook Giup Chongram, 1990–1995). For the textile and electronics industries there were no statistically significant differences between our respondents and the industry averages for revenues and ROA. But for the machinery and auto parts industry, our sample firms did show somewhat higher ROAs. Thus our findings may not apply with equal precision to poorly performing machinery and auto parts companies.

The variables

Organizational commitment to employees (OCE) was measured in two ways, with each measure being completed by a different respondent in the organization. The two measures and two respondents were used to enhance the validity of the results. The first measure, OCE1, was assessed using four anchored 5-point Likert scale items suggested by Eisenberger *et al.* (1986) (see Appendix): These assessed how much the organization cares about employee wellbeing, about ample and fair pay, about satisfaction at work, and about sharing profits. Choi (1990) and Lee and Lee (1994, 1995) argue how important these factors are to Korean workers' dedication to an organization and its objectives. The Cronbach alpha for the OCE1 measure was 0.82. The most senior vice president of each organization completed this scale.

The second measure of OCE, OCE2, employed two 5-point Likert scales asking the CEO of the firm to rate his organization relative to its principal competitors on (1) how much the company invested in education and competence development for its employees, and (2) how much the company invested in total compensation, including benefits and vacation, for its employees. The Cronbach alpha for this OCE2 measure was 0.71. The topmost executive of each organization completed these scales.

Although OCE1 and OCE2 correlated significantly ($r = 0.26$, $p < 0.003$), the two scales clearly measured different aspects of the commitment to employees construct, and afforded some opportunity for testing the robustness of our findings. This was confirmed by the factor analysis of Table 2(a).

Strategy. Recall that Porter (1980, 1985, 1996) and his followers maintained that sustainable competitive advantage could only accrue to firms that position themselves in the marketplace through *dedicated* cost leadership, differentiation, or a focused combination of the two. A firm that does not embrace any of these strategies is said to lack a competitive edge. We thus assessed a firm's positioning strategy according to the dedication—that is, the intensity and thoroughness—with which it pursued cost leadership or differentiation. Following Miller (1986, 1988, 1991), we assessed two different kinds of differentiation strategies: innovative and marketing differentiation. Porter's focus dimension was excluded as it did not vary significantly in our sample of undiversified companies.

To assess the dedication (i.e., intensity and thoroughness) with which firms pursued their positioning strategies, we employed multiple items to represent each strategy. We used a Korean translation of Miller's (1988) anchored Likert scales (see Appendix). Marketing differentiation was assessed by three items gauging the use of advertising, the promotion of brand identification, and attractive design or packaging. Innovative differentiation was assessed by four items measuring new product development, product R&D, the creation of state-of-the-art products, and the continual refinement of product lines. Finally, cost leadership was measured by three items assessing the use of efficient inventory management techniques, cost reduction efforts, and just-in-time manufacturing (see also Dess and Davis, 1984).

The Cronbach alphas for the three strategy variables were 0.89, 0.87, and 0.70. A confirmatory factor analysis (orthogonal, varimax) was run to determine whether the items loaded on the three strategies as expected. The results are given in Table 2(b), and show the sharp pattern of loadings for the items used. The items all loaded highly only on their own strategy factor and not on either of the others. Thus we averaged the items to produce a composite score for each of the three strategies. This score reflected the vigor and thoroughness with which each positioning strategy was pursued.

Although the three strategies are quite distinct, they are not mutually exclusive, as can be seen from the correlations of Table 3. This is in line with Miller's (1988, 1991) notion of treating generic strategies as separate dimensions for achieving competitive superiority rather than discrete types, a procedure we followed throughout this research.

Financial performance was measured using ROA. This measure has been the most widely used to date in strategy research (Hambrick, 1983; Rumelt, 1984; Miller and Friesen, 1986) and applies with equal relevance to each of the industries we studied. We asked the top executives to supply from their financial statements figures on sales, total assets, and before-tax earnings. For the 30 public companies, we obtained published financial reports to confirm the figures provided by the top managers. ROA as computed from published figures correlated at 0.98 with ROA computed from data supplied by the managers.

Because the level of *uncertainty*, that is, change and unpredictability, in a firm's market can itself influence financial performance, we controlled for this in all of our analyses. Uncertainty was measured using the five anchored 5-point Likert scales of Khandwalla (1977) and Miller (1988) (see Appendix). The scales assessed the rate of product obsolescence, the frequency of changes in industry marketing practices and technologies, and the predictability of competitors' activities and customers' demands. The Cronbach alpha for uncertainty was 0.63, a modest value no doubt due to the very diverse indicators composing the variable. We also employed industry dummies as control variables in all of our hypothesis tests.

Interrater reliability

We wished to ensure that respondents from within the same company agreed in their responses to the questionnaire. So we had two respondents in 25 companies reply to the same questions. Responses were given independently and without consultation among the participants. The Pearson correlations among the two respondents averaged as follows for our variables: OCE1, 0.67; OCE2, 0.68; innovative differentiation, 0.61; marketing differentiation, 0.48; and cost leadership, 0.67. All of these relationships were significant at beyond the 0.005 level, and were acceptable according to the criteria established by Khandwalla (1977: 658) and Nunnally (1967).

Analyses

The means and standard deviations for the total sample are given in Tables 1(a) and 1(b), as are the breakdowns by industry. The correlation matrix is given in Table 3. Hypothesis 1 was tested using the moderated OLS regression analyses of Table 4. In these analyses, ROA is regressed against OCE, uncertainty, industry dummies, and the three strategies, respectively. Hypothesis 2 was tested using interaction variables between either OCE1 (Table 4) or OCE2 (Table 5) and each of the strategy variables. The statistical significance of the additional variance explained was then computed. In order to reduce potential problems of multicollinearity, the components of the interaction term were standardized before multiplication (Smith and Saski, 1979).

FINDINGS

In conformance with Hypothesis 1, the main effects presented in Tables 4 and 5 indicate that OCE1 and OCE2 are positively related to ROA, no matter which strategy is used. But only half of these relationships are statistically significant at the 0.05 level. Thus it appears, at least in the Korean context, that an organization's commitment to its employees may have only a modest financial pay-off. OCE alone may not yield a strong advantage.

Hypothesis 2, however, suggested that the performance impact of OCE would be especially great in the context of an effective positioning strategy. The moderated multiple regression analyses of Tables 4 and 5 display strong support for this relationship: Table 4 for OCE1 and Table 5 for OCE2. We tested the significance of the interaction by examining the change in R^2 for the total model that results from adding the interaction term. In all instances, R^2 for the total models almost doubles with the addition of the OCE–strategy interaction terms. Also, the increment to R^2 is always significant at beyond the 0.01 level. Clearly, OCE appears to present managers with an important opportunity to facilitate the execution of their strategies. Or conversely, effective positioning strategies seem to channel the motivational benefits of OCE in useful directions.

DISCUSSION

Scholars in the field of strategic management have long appreciated the difficulties inherent in the effective execution of competitive strategies. Reactions to the resulting problems have been to suggest that strategies require appropriate structures and processes to achieve good results in

Table 1(a). Comparing sample firms to industry averages

Industry		Number of employees	Firm age	Sales volume (100 million won)	ROA (%)
Textiles	M	369	19	247	2.3%
	SD	(596)	(9)	(438)	(2.3)
Machinery	M	424	19	308	4.1%
	SD	(280)	(9)	(264)	(5.8)
Auto-parts	M	219	16	180	3.9%
	SD	(302)	(11)	(333)	(5.4)
Electric and Electronics	M	682	17	940	8.9%
	SD	(1124)	(7)	(1572)	(20.7)
Average		420	18	388	4.6%
		(677)	(9)	(818)	(10.5)

Table 1(b). Descriptive statistics by industry

		Textile	Machinery	Auto Parts	Electronic	Total
Uncertainty	*M*	3.31	2.98	2.71	3.35	3.10
	S.D.	0.55	0.68	0.61	0.71	0.68
OCE1	*M*	2.84	2.86	3.29	3.31	3.06
	S.D.	0.75	0.77	0.57	0.70	0.73
OCE2	*M*	3.01	3.29	3.47	3.42	3.28
	S.D.	0.59	0.82	0.67	0.70	0.71
Cost lead	*M*	3.32	3.62	3.48	3.47	3.47
	S.D.	0.57	0.73	0.62	0.55	0.61
Marketing differentiation	*M*	2.68	2.74	3.20	2.82	2.84
	S.D.	0.73	0.92	0.75	1.00	0.86
Innovative differentiation	*M*	3.36	3.79	3.81	3.84	3.69
	S.D.	0.68	0.79	0.78	0.75	0.66
ROA	*M*	2.33	4.13	3.88	8.92	4.56
	S.D.	2.26	5.83	5.43	20.71	10.48
N		38	31	30	30	129

the marketplace (Fredrickson, 1986; Miller, 1986, 1987, 1988). This study suggests that another factor—a human dimension—may be critical to the effective execution of strategy (Fiol, 1991; Lado and Wilson, 1994). Specifically, organizations that attempt to form tighter emotional bonds with their employees by being more solicitous of their well-being may receive some financial reward for doing so. The resulting motivation, dedication, and cooperation among employees may represent a valuable competitive resource. Certainly, such properties are among the competitive advantages that rivals would be least able to steal or imitate (Barney, 1991; Hall, 1993; Lado and Wilson, 1994; McAllister, 1995).

But OCE has the greatest potential to enhance financial performance in organizations with a strong positioning strategy. Strategy appears to be necessary to channel effort to achieve the maximum benefit. Execution, to be sure, is most effective where there is something of promise and substance to execute. This research suggests that the competitive analysis or positioning view (Porter, 1980, 1996) and the resource-based view of strategy (Wernerfelt, 1984; Barney, 1991) may in fact be complementary. An internal, asset-specific resource such as a motivated and loyal workforce can aid in the execution of effective positioning strategies. More work needs to be done to seek out complementarities between these two dominant schools of strategy.

The findings suggest also that we question whether the current trend towards downsizing and re-engineering has more long-run costs than short-

Table 2(a). Varimax rotated factor matrix of OCE items

	OCE1	OCE2
OCE1: Attention to:		
Employees' well-being	0.83	0.21
Fairness in compensation	0.86	0.05
Worker satisfaction	0.78	0.03
Profit sharing	0.72	0.15
OCE2: Investment in:		
Training and education	0.09	0.88
Total compensation	0.13	0.87
Eigenvalue	2.83	1.35
% of variance	47	23

Table 2(b). Varimax rotated factor matrix of strategy items

	Innov diff'n	Cost lead.	Mktg diff'n
New product development	0.89	0.18	0.14
Product R&D	0.88	0.10	0.16
State-of-the-art products	0.79	0.19	0.13
Continual refining of products	0.69	0.27	0.05
Just-in-time mfg.	0.21	0.83	0.20
Efficient inventory management	0.17	0.83	0.04
Reducing production/operations cost	0.21	0.83	0.17
Advertising	–0.05	0.32	0.82
Promoting brand identification	0.15	0.18	0.82
Attractive design or packaging	0.35	–0.10	0.63
Eigenvalue	4.26	1.61	1.31
% of variance	43	16	13

Table 3. Pearson correlation matrix

	2	3	4	5	6	7	Cronbach alpha
1. OCE1	0.27	0.08	0.13	0.13	0.23	0.06	0.82
2. OCE2	1.00	0.38	0.29	0.49	0.24	–0.11	0.71
3. Cost leadership		1.00	0.37	0.47	0.33	–0.08	0.70
4. Marketing differentiation			1.00	0.46	0.23	0.14	0.89
5. Innovative differentiation				1.00	0.25	0.02	0.87
6. ROA					1.00	0.07	NA
7. Uncertainty						1.00	0.63

Correlations of 0.20 or more are significant at beyond the 0.05 level under a two-tailed test.

Table 4. Moderated regression analyses for return on assets: OCE1

Industry dummies[a]:			
Machinery	–0.001	0.084	0.033
Autoparts	0.052	–0.062	–0.018
Electronics	0.203*	0.144	0.118
Uncertainty	0.026	–0.046	–0.024
Strategy:			
Cost leadership	0.281*		
Marketing differentiation		0.159+	
Innovative differentiation			0.117+
OCE1	0.063	0.142	0.182*
Interactions:			
OCE1 × Cost leadership	0.407**		
OCE1 × Marketing differentiation		0.404**	
OCE1 × Innovation differentiation			0.268**
R^2	0.330	0.291	0.186
F	6.75**	5.75**	3.18**
Change in R^2 from adding interaction term to the model	0.156	0.147	0.061
F change in R^2	22.41**	20.30**	3.18**

[a]Textiles were the reference industry.
Findings at beyond the +0.10, *0.05 and **0.01 levels

run benefits. Great care must be taken to ensure that employees' trust and sense of community are not shattered by the indiscriminate slashing of jobs or wages. Otherwise the immediate reductions in cost may soon be outweighed by the longer, and more irreversible costs of demotivation. A sense of trust and community that comes from an organization's commitment to its employees may be one of the most powerful resources available to a company. But it tends to be built up gradually and, once lost, is tough to regain. Wherever possible this resource must not be placed in jeopardy.

We should remind readers that this study was done not in America or Europe, but in Korea. Korean companies rely on a communal culture and expectations of paternalism. Confucianism is the dominant ethic and so the group is believed to be more important than the individual (Choi, 1985; Ko, 1992; Han, 1991; Park, 1984; Ungson *et al.*, 1997). Thus employees appear to be willing to do a great deal to help companies that have given them support and consideration over the years. Recent case studies of Korean businesses, for example, have shown how firms with a strong sense of commitment to their employees evolved climates of reciprocal staff dedication (Choi, 1990; Lee and Lee, 1994). In such communal cultures, the benefits from OCE may be augmented. Thus it might be premature to generalize our Korean results to countries with more individualistic or transactional ethics.

Even in America, however, commitment to employees and employee perceptions of such commitment have been shown to elicit dedication and initiative (Eisenberger *et al.*, 1990; Organ, 1990; Moorman *et al.*, 1998; Williams and Anderson, 1991). Such responses would make human resources especially valuable wherever a coherent strategy can be leveraged by devoted and creative execution (Barney, 1986; Barney and Hansen, 1994). In short, the findings of this study may well obtain in other cultures.

Like most survey-based studies, this one establishes association, but not causality. It is possible, for example, that firms with a higher ROA can afford to be more committed to their employees because they have the financial resources to do so. Such reasoning does not, however, explain the strongest and most interesting finding of this

Table 5. Moderated regression analyses for return on assets: OCE2

Industry Dummies[a]:			
Machinery	0.014	0.011	0.022
Autoparts	–0.010	–0.027	–0.032
Electronics	0.241*	0.196*	0.155
Uncertainty	0.052	0.027	0.109
Strategy:			
Cost leadership	0.181*		
Marketing differentiation		0.103	
Innovative differentiation			0.080
OCE2	0.097	0.204*	0.202*
Interactions:			
OCE2 × Cost leadership	0.413**		
OCE2 × Marketing differentiation		0.506**	
OCE2 × Innovation differentiation			0.394**
R^2	0.325	0.390	0.268
F	6.67**	9.02**	5.12**
Change in R^2 from adding interaction term to the model	0.153	0.244	0.152
F change in R^2	21.94**	39.49**	20.33**

[a]Textiles were the reference industry.
Findings at beyond the *0.05 and **0.01 levels

study—namely the powerful interaction effect between both types of OCE and all three types of strategy in predicting ROA.

The task remains to extend this research by assessing the micro-effects of an organization's OCE—to test *all* of the relationships of Figure 1. Does OCE, for example, translate into greater employee commitment, a sense of community, harder work, more creativity, or better collaboration? Moreover, which of these responses are most responsible for improved financial returns or better strategy implementation, and does this vary according to strategy and according to the environment of the firm? This kind of research will require the polling of many lower-level employees within each organization. But the current results would appear to support the promise of such a major research project.

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APPENDIX: SCALE ITEMS OF QUESTIONNAIRE

All scales translated from the Korean

Sections A, B and C2 were completed by the topmost manager (i.e., CEO, Director General, President), while section Cl was completed independently by the most senior vice president.

A1. Uncertainty of the environment (topmost executive)

Please circle 1 if the statement on the left applies very strongly, circle 5 if the statement on the right applies very strongly, circle 3 if neither statement applies or if both statements apply equally, and circle 2 or 4 to indicate some tendency towards the statements on the left or right, respectively.

	1	2	3	4	5	
The unit must rarely change its marketing practices to keep up with the market and competitors.	1	2	3	4	5	The unit must change its marketing practices extremely frequently (e.g. semi-annually).
The rate at which products/services are becoming obsolete in the industry is very slow (e.g., basic metal like copper).	1	2	3	4	5	The rate of obsolescence is very high (as with some fashion goods).
Actions of competitors are quite easy to predict (as in some primary goods).	1	2	3	4	5	Actions of competitors are unpredictable (e.g., the software business).
Demand and consumer tastes are fairly easy to forecast (e.g., milk companies).	1	2	3	4	5	Demand and tastes are almost unpredictable (e.g., in high fashion).
The production/service technology is not subject to much change and is well established (e.g., steel production).	1	2	3	4	5	The production/service technology often changes in a major way (e.g., advanced electronics)

B1. Competitive methods used (topmost executive)

Which of the following competitive methods are used by your firm in pursuing its strategies?

	Not part of our strategy at all				A key part of our strategy
Just-in-time manufacturing	1	2	3	4	5
Efficient inventory management	1	2	3	4	5
Total quality programs	1	2	3	4	5
Reducing production/operations cost	1	2	3	4	5
Advertising	1	2	3	4	5
Promoting brand identification	1	2	3	4	5
Attractive design or packaging	1	2	3	4	5
New product development	1	2	3	4	5
Product R and D	1	2	3	4	5
State-of-the-art products	1	2	3	4	5
Always refining existing products	1	2	3	4	5

Organizational commitment to employees

C1. OCE1 (most senior V.P.)

	Do not agree				Strongly agree
The organization really cares about its employees' well-being	1	2	3	4	5
The firm is really concerned about paying everyone what they deserve	1	2	3	4	5
The firm cares about workers' overall satisfaction at work	1	2	3	4	5
If the firm earned more profit, it would consider increasing salaries	1	2	3	4	5

C2. OCE2 (topmost executive)

Compared to your principal competitors:

	Much less		Same	Much more	
How much do you invest in education and competence development for your employees?	1	2	3	4	5
How much do you invest in total employee compensation (including all benefits and pensions)?	1	2	3	4	5