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

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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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We gratefully acknowledge the cooperation and support of May Mukuda and KPMG Peat Marwick in the collection of the data, as well as Sumita Raghuram and Jim Kennelly in coding and analyzing it. We thank Kiyohiko Ito, Jeremiah Sullivan, Mary Sully Taylor, and Eleanor Westney for their helpful comments on earlier versions of this paper. We also thank this journal’s reviewers for the insightful comments and criticisms. Earlier versions of this paper were presented at the 1992 Association of Japanese Business Studies Meetings and the 1993 Academy of International Business Meetings.

Received: August 1993; Revised: February & May 1994; Accepted: May 1994.
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 fivefold 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., Duer [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