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The Choice of Strategic International HRM Orientation by Japanese Firms: Examining the Effects of Affiliates' Local Business Strategies

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ABSTRACT

Recent studies on strategic international human resource management (SIHRM) have advocated the importance of strategic fit between firm's choice of SIHRM orientations and the types of business strategies in their overseas operations of multinational corporations (MNCs). Using both questionnaires and publicly available data of 155 Japanese affiliates in the People's Republic of China (PRC), the study results demonstrated that affiliates' market strategies have significant impacts on their choices of SIHRM orientations. Specifically, affiliates with cost reduction and differentiation strategies tended to adopt an integrative SIHRM orientation where the highest degree of hybridisation between the parent and local HRM practices exist at an MNC's affiliate. The findings are used to discuss the role that local business strategies play in the hybridisation processes of Japanese MNCs' business units in a cross cultural setting.

INTRODUCTION

Extant studies in the field of international human resource management (IHRM) have long advocated the importance of identifying factors affecting the choice of strategic international human resource management (SIHRM) orientations in overseas operations of multinational corporations (MNCs) (Rosenzweig & Singh 1991, Evans & Doz 1993, Schuler, Dowling & De Cieri 1993, Taylor, Beechler & Napier 1996, Takeuchi, Wakabayashi & Chen 2003, Jaw & Liu 2004). In particular, researchers and practitioners in this field have repeatedly posed a fundamental question: What business and market environments determine the similarity and dissimilarity of affiliates' HRM practices to their parent companies (Rosenzweig & Nohria 1994, Taylor, Beechler, et al. 1996, Lu & Bjorkman 1997). Yet, few adequate responses to this important question have been provided to date, and empirical studies that have sought to meaningfully address this issue are still either limited or neglected (Takeuchi, et al. 2003, Jaw & Liu 2004). The present study, therefore, attempts to examine the factors influencing affiliates' HRM similarity and dissimilarity to their Japanese parent company, following the framework outlined by the SIHRM studies.

The prior theoretical work done by Taylor, et al. (1996) classified MNCs' SIHRM orientations into three typologies. These three categories depended on the extent to which affiliates' HRM policies and practices are similar to or dissimilar to their parent companies: exportive, adaptive, and integrative SIHRM orientations in MNCs' overseas business settings. These conceptualisations provide a point of departure for assessing what makes a MNC's business units follow exportive, adaptive, or integrative approaches in designing an affiliate's HRM system? An additional enigma is does the choice of SIHRM orientations affect the organisational performance of firms? This study attempted to answer these research questions, using both an original questionnaire survey and publicly available data of 155 Japanese affiliates operating in the People's Republic of China (PRC). There is an expectation that the findings of this study will improve the understanding of both researchers and practitioners and so help them identify what business and environmental forces surrounding PRC based Japanese affiliates promote or impede the choice of an exportive, integrative, or adaptive way of managing local human resources. Furthermore, the findings of the study will fuel the on going debate on strategic fit (Schuler, et al. 1993, Taylor, et al. 1996) and local adjustments (Wong & Law 1999) in the field of IHRM, by testing the effects of affiliates' strategic mission and business strategy variables on the choice of SIHRM orientations in the PRC.

The structure of this paper can be summarised as follows. First, the following section presents the definition of SIHRM orientations in relation to the theoretical background of the study. Then, a number of working hypotheses to be tested in the study are formulated by reviewing and elaborating several important theory based propositions of SIHRM. Following these theoretical arguments, detailed explanations of the data collection procedure, measurement instruments, and the analytic strategies employed in this study are provided. A series of hypotheses tests are then conducted regarding the strategy impact on the choice of SIHRM orientations and the performance implications of SIHRM choices by the PRC based Japanese affiliates. Finally, the findings of the study are discussed and evaluated by comparing extant research findings and assertions of prior SIHRM work in the West, which may enable the paper to offer unique contributions to the advancement of SIHRM theory in general and the future development of an Asia Pacific model of SHIRM in particular.

LITERATURE REVIEW AND HYPOTHESES

SIHRM Orientations Defined

How firms' IHRM strategies fit with their overall business strategies constitutes a central idea of SIHRM (Adler & Bartholomew 1992, Schuler, et al. 1993). Many studies have attempted to theorise SIHRM by highlighting the links between firms' IHRM strategies and the strategic tension between the pressure for global integration and that for local responsiveness (Rosenzweig & Singh 1991, Evans & Doz 1993). MNCs manage far flung operations of their overseas affiliates that are facing such a tension in local settings. IHRM strategies are considered relatively amenable to this tension, and how firms build their affiliates' HRM policies and practices that are similar to or dissimilar to parent companies is an important strategic decision for MNCs. In their attempts to develop an integrative model of SIHRM, Taylor, et al. (1996) classified firms' SIHRM activities into three levels: the parent company, the affiliate, and employee groups within affiliates. In their model, the SIHRM orientations are defined as the general philosophy or approach taken by senior management of the MNC in the design of its overall IHRM system, particularly the HRM systems to be used in its overseas affiliates. (Taylor, et al. 1996: 966). In essence, SIHRM orientations stemming from senior management of MNCs are operationalised in the form of HRM systems at the overseas affiliate level. In addition, they conceptualise SIHRM orientations as having the following three modes: adaptive, exportive, and integrative.

An adaptive SIHRM orientation is one where the HRM systems of affiliates reflect the local environment. Under the adaptive SIHRM orientation, a MNC generally copies the HRM systems that are being used locally. (Taylor, et al. 1996: 966). An exportive SIHRM orientation is one where wholesale transfer of the parent firm's HRM system to its overseas affiliates is preferred. Under the exportive SIHRM orientation, MNCs replicate in its overseas affiliates the HRM policies and practices used by their parent company. An integrative SIHRM orientation is one where MNCs attempt to take 'the best' approaches and use them throughout the organisation in the creation of a worldwide system. Under the integrative SIHRM orientation, substantial global integration with an allowance for some local differentiation is pursued at the affiliate level. This orientation integrates characteristics of the parent company's HRM system with those of its overseas affiliates.

It must be noted that these SIHRM orientations to the management of PRC based affiliates can be analysed at the affiliate level, as SIHRM orientations are embodied in the affiliate HRM system. Taylor, et al. (1996) assume that an exportive SIHRM orientation is pursued when the HRM practices of an affiliate are similar to those of its parent company, while an adaptive SIHRM orientation is adopted when the HRM practices of an affiliate resemble those commonly practiced by local (i.e., Chinese) companies. An integrative SIHRM orientation is followed when the HRM practices of an affiliate are a successful mix of the outcomes of those of its parent and local companies, resulting in a moderate resemblance to the parent company's HRM practices.

Factors Affecting SIHRM Orientations in the PRC

An intensive review of the literature on the IHRM and strategic HRM (SHRM) fields led the author to identify the following five bundles of factors that may have an impact on the choice of the mode of SIHRM in the PRC operations of Japanese firms. These variable groups are: (1) method of funding, (2) the MNC's dependence on the local environment, (3) staffing policy, (4) the affiliate's strategic mission within the multinational management contexts, and (5) the affiliate's business strategy in the PRC.

Table 1 summarises the hypothetical directions of the effects of each predictor variable on the three types of SIHRM orientations; namely, exportive, adaptive, and integrative. As shown in Table 1, each hypothesis was drawn from a number of prior theoretical studies on SIHRM. In particular, the resource based view and the resource dependence perspective were used to form the specific hypotheses to be tested in the study (Schuler, et al. 1993, Taylor, et al. 1996). In addition, some effects have already been tested in several previous studies using Western samples in the United States (Rosenzweig & Nohria 1994) or in the PRC (Lu & Bjorkman 1997). Explanations are, however, needed

regarding the predictive effects of an affiliate's strategic role and business strategy upon the choice of an SIHRM orientation. In the following sections, a review of the relevant literature relating to these effects is made, which, in turn, leads to the formulation of a series of working hypotheses to be tested in this study.

Table 1
SIHRM orientations

Predictors	SIHRM orientations			Literature that support each hypothesis
	Exportive	Integrative	Adaptive	
Method of Funding				
Greenfield operation	+	+	-	Rosenzweig & Singh (1991), Taylor, et al. (1996), Foss & Pedersen (2002).
Wholly owned	+	+	-	Schuler, et al. (1993), Farley, et al. (2004).
Equity JV	-	+	+	Schuler, et al. (1993), Lu & Bjorkman (1999), Farley, et al. (2004).
Dependence to Local Environment				
% of local procurement	-	None	+	Rosenzweig & Singh (1991), Jaw & Liu (2004).
% of product exportation	+	None	-	Rosenzweig & Singh (1991), Jaw & Liu (2004).
Staffing Policy				
% of Japanese expatriates	+	-	-	Schuler, et al. (1993), Taylor, et al. (1996), Lu & Bjorkman (1997).
Japanese general manager	+	-	-	Schuler, et al. (1993), Rosenzweig & Nohria (1994), Taylor, et al. (1996).
Japanese HR manager	+	-	-	Schuler, et al. (1993), Rosenzweig & Nohria (1994), Taylor, et al. (1996).
Strategic Role of Affiliates				
Integrated player	-	+	-	Taylor et al. (1996), Bechler & Ghosh (1998).
Implementer	+	-	-	Taylor, et al. (1996).
Local innovator	-	-	+	Taylor, et al. (1996).
Business Strategy in PRC				
Differentiation	-	+	-	Takeuchi, et al. (2004).
Cost reduction	-	-	+	Jaw & Liu (2004), Takeuchi, et al. (2004).

Notes: a. '+' sign denotes a hypothesised positive effect on the choice of a focal SIHRM orientation, while '-' sign represents a hypothesised negative one. b. 'None' represents little or no predictive impact on the choice of a focal SIHRM mode.

Effects of the Strategic Role of an Affiliate

This study examines the theoretical premise of SIHRM that the choice of SIHRM orientations by affiliates would be influenced by what strategic role an affiliate plays in a multinational management context. In their attempt to develop a model of global strategy, especially at the affiliate level, Gupta and Govindarajan (1991, 2000) classified the strategic role of an affiliate into four types depending on the extent to which resource inflows and outflows take place between a parent company and its overseas affiliate: (1) global innovator, (2) integrated player, (3) implementer, and (4) local innovator. Global innovator is a type of affiliate strategic role where there is a high outflow of resources to the parent company and a low inflow of resources to the affiliate. Integrated player is characterised by an affiliate where there is both a high outflow and inflow of resources. Implementer is characterised by an affiliate where there is a low outflow and a high inflow of resources. Finally, local innovator is typified by an affiliate where there is both a low outflow and inflow of resources. Since the study focuses on PRC based Japanese affiliates, most of which engage in the production and assembly of consumer goods by utilising relatively low cost labour and materials in the PRC, there will be very few affiliates that are categorised as global innovators. Thus, the remaining three types of strategic role, integrated player, implementer, and local innovator, are considered in this study, which uses a sample of PRC based Japanese affiliates.

Following the notion of strategic fit in the international HRM field (Schuler, et al. 1993, Taylor, et al. 1996), it is quite conceivable that there will be an appropriate congruence between each of the three types of affiliate strategic role and its corresponding SIHRM mode adopted by the PRC based affiliates. Specifically, affiliates with a low outflow and a high inflow of resources (i.e., implementers) are expected to adopt an exportive SIHRM orientation, given that an affiliate of this type is by nature subject to tight control by its parent company (Gupta & Govindarajan 1991). The existence of strong control mechanisms between the parent company and its affiliate tends to result in their respective HRM policies and practices having a high resemblance (Beechler & Ghosh 1998), leading local affiliates to choose an exportive SIHRM orientation. In contrast, affiliates with a low outflow and inflow of resources (i.e., local innovator) are hypothesised to follow an adaptive SIHRM orientation, given that these types of affiliates are considered relatively independent, autonomous, and able to penetrate the local markets in the PRC. Following a resource dependence view, affiliates that are less dependent on their parent company's resources tend to make the most of local advantages, resulting in the HRM policies and practices of affiliates and local firms having a high resemblance (Taylor, et al. 1996). Furthermore, affiliates with a high outflow and inflow of resources to and from their parent company (i.e., integrated players) are expected to adopt integrative SIHRM orientations. It is known that the hybridisation of knowledge or know how through a moderate level of localisation at the affiliate level may allow an affiliate to create innovative knowledge that can be transferred to its parent company (Schuler, et al. 1993, Taylor, et al. 1996, Bird, Taylor & Beechler 1999). Therefore, based on the aforementioned arguments, the following hypotheses regarding the links between affiliate strategic role and SIHRM orientations at the affiliate level can be stated.

Hypothesis 1a: The choice of an exportive SIHRM orientation by PRC based Japanese affiliates is positively related to the pursuance of an implementer role.

Hypothesis 1b: The choice of an adaptive SIHRM orientation by PRC based Japanese affiliates is positively related to the pursuance of a local innovator role.

Hypothesis 1c: The choice of an adaptive SIHRM orientation by PRC based Japanese affiliates is positively related to the pursuance of an integrated player role.

The Effects of Business Strategies for the PRC Market

Another strategic factor of PRC based Japanese affiliates is the business strategy pursued by them. Takeuchi, Wakabayashi, and Chen (2004) found from their case study of the five leading Japanese MNCs in the PRC that the choice of market and business strategy in the local setting influenced the degree of similarity between an affiliate's HRM practices and those of its Japanese parent. They reported that the highest degree of similarity was found in affiliates that used a quality enhancing strategy for their competitive success in the PRC market. A moderate degree of similarity was found in those who adopted a differentiation strategy, and the lowest degree of similarity was found in those who adopted a cost reduction strategy. The logic behind the facts seems to be that the HRM policies and practices commonly used in Japanese firms in general fit well with the quality enhancement of products and services, and thus, an affiliate's HRM policies and practices under a quality enhancement strategy do not force the affiliate to make significant modifications in the PRC when they are transferred from their Japanese parent. In contrast, an affiliate's HRM policies and practices under differentiation or low cost strategies are subject to some, or even a considerable degree, of modifications to its home derived HRM template. Moreover, reducing the costs of production or whole business processes, including purchasing costs, labour costs, and/or other required expenses, requires that an affiliate penetrate the local environment, which makes an affiliate's management practices similar to those of local firms in the PRC (Jaw & Liu 2004, Takeuchi, et al. 2004).

Caution is needed, however, when interpreting the findings reported by Takeuchi, et al. (2004). In their qualitative

analysis, they found that a quality enhancement strategy was only effective in a small number of cases of Japanese manufacturers in the PRC. Thus, it is premature to judge from their findings that a quality enhancement strategy constitutes a unique type of strategy that is commonly found in the PRC. Moreover, Porter's (1998) framework of competitive strategy suggests that a quality enhancement strategy can be a part of a differentiation strategy (i.e., differentiation in terms of product quality), and thus the two strategic dimensions of cost leadership and differentiation would be more plausible. As such, the study assumes that quality enhancement would not be the sole strategy, but be combined with a differentiation strategy. Thus, the strategic types of cost reduction and differentiation can in general be regarded as distinctive and widely seen strategies for PRC based Japanese affiliates. Thus, the following hypotheses regarding the links between the choice of SIHRM orientations and the pursuance of affiliate business strategies can be drawn.

Hypothesis 2a: The choice of an adaptive SIHRM orientation by PRC based Japanese affiliates is positively related to the pursuance of a cost reduction strategy to target the PRC market.

Hypothesis 2b: The choice of an integrative SIHRM orientation by PRC based Japanese affiliates is positively related to the pursuance of a differentiation strategy to target the PRC market.

Relevance to Organisational Performance

A number of theoretical studies on SIHRM have suggested that an appropriate choice of SIHRM orientations by affiliates should have a positive impact on organisational performance in their local operations (Taylor, et al. 1996, Bird, et al. 1999, Jaw & Liu 2004). In particular, following the 'best practice' approach to SHRM, there should be a 'best' choice of an SIHRM orientation that can explain, to some extent, affiliates' organisational performance (Schuler, et al. 1993, Taylor, et al. 1996). Specifically, there is considerable agreement among researchers in this field that an integrative approach to SIHRM would generally be one of the most promising methods of managing human resources in the affiliate.

There are several reasons why the choice of an integrative SIHRM orientation has the potential to generate better organisational performance. First, an integrative SIHRM can provide each affiliate with a basis for balancing the tensions between internal (MNC's) and external (local environmental) forces (Rosenzweig & Singh 1991). Second, it can simultaneously achieve both internal and external consistencies in the affiliate (Schuler, et al. 1993, Taylor, et al. 1996). Third, this integrative way would be able to promote 'learning' at both the parent and affiliate levels, which would enable each affiliate to create a competitive edge in its local operations (Bird, et al. 1999). Thus, the following hypothesis can be formulated.

Hypothesis 3: Affiliates with an integrative SIHRM orientation will have significantly higher organisational performance than those with exportive and adaptive SIHRM orientations in the PRC.

METHODOLOGY

Sample and Data Collection

In order to test the hypotheses, a questionnaire survey was administered to a sample of 1,532 Japanese affiliates operating in Mainland China in 2004. For this study, manufacturing industries with more than 50 employees were sampled. The names and addresses of these sample firms were derived from the corporate data listed in The Directory of Japanese Overseas Firms 2004 (Toyokeizai 2004). Two separate sets of questionnaires were prepared: one for senior management and the other for the HR department of each sample affiliate. The questionnaire for senior management was designed to obtain the data associated with the strategic role of affiliates, business strategies, performance, and other strategic and general information of affiliates. The questionnaire for the HR department was designed to collect information related to an affiliate's HRM policies and practices. It is recommended in prior literature that using separate questionnaires in one firm will reduce the problem of common method variance that may inflate statistical associations between variables given the subjective nature of survey responses (Podsakoff & Organ 1986).

To facilitate responses, both Chinese (Mandarin) and Japanese versions of the senior management and HR questionnaires were prepared. The conventional method of back translation (Brislin, Lonner & Thorndike 1973) was applied in developing the Chinese (Mandarin) versions of the questionnaires. Specifically, all questionnaire items were first developed in Japanese by the author, who is a native Japanese speaker. Then, they were translated into Chinese (Mandarin) by a Chinese researcher (a native Chinese (Mandarin) speaker who has a Ph.D. in human resource studies from a Japanese university) and other professional academics. Next, bilingual practitioners from the human resource functions of a Japanese firm in the PRC verified the questionnaire wording to ensure clarity.

The questionnaires were mailed to the sample affiliates in China with the request that the senior management questionnaire be rated by a general or a vice general manager and the HR questionnaire by the head of the HR department. The respondents were asked to return both questionnaires using stamped envelopes to the author's office in Japan. A total of 155 out of 1,532 sample affiliates sent back both the senior management and HR questionnaires and all the questionnaires were found to be usable. Thus, the response rate of this survey was 10.1 per cent in total. In addition to the data collected through the questionnaire survey, secondary data from the database version of The Directory of Japanese Overseas Firms 2004 was utilised as a reliable source for some background information of the sample affiliates.

Measures

The Similarity of an Affiliate's HRM Practices to Those of the Parent Company

Based on the HRM similarity measures developed by Rosenzweig and Nohria (1994), and Lu and Bjorkman (1997), a 21 item measure of the similarity of an affiliate's HRM practices to those of the parent company was developed. This measurement tool was included in the HR questionnaire, which was rated by the HR department of each sample affiliate. The items of this measure were designed to cover the six functional areas of HRM practices: practices for recruitment (two items), training (four items), promotion (four items), appraisal (four items), compensation (four items), and quality control (three items). A seven point Likert type response format was applied to measure the degree of HRM practice similarity to the parent company responses, ranged from 7 (very similar to your Japanese parent), through 4 (both sides are hybridised in half), to 1 (very similar to local firms).

In order to statistically categorise SIHRM orientations based on the HRM similarity measure, a cluster analysis for the six subscales of HRM similarity was performed. Specifically, the six composite scales were first constructed from 21 HRM items, including recruitment, training, promotion, appraisal, compensation, and quality control. The coefficient alphas for these sub dimensions were found to be all above 0.70. Then, a cluster analysis with three cluster solutions for six similarity measures was conducted to categorise all the respondents of this study into three groups, depending on the patterns of ratings for these HRM similarity measures. The cluster results are shown in Table 2. Table 2 shows the respondents categorised into the first cluster were found to give the highest similarity scores for all HRM dimensions. In contrast, the respondents in the third cluster were found to give the lowest scores. The scores given by the respondents in the second cluster were found to fall between the scores given by the respondents in the first and the third clusters. In addition, mean difference tests for each of the six HRM similarity measures between clustering groups were all found to be significant. It should be noted that these findings correspond to the definitions of the three types of SIHRM orientations, namely, exportive (the first cluster), integrative (the second cluster), and adaptive (the third cluster) orientations. Thus, the Taylor, et al. (1996) categorisation of SIHRM orientations was found to be tenable and so was used in subsequent analyses.

Similarity measures	n = 155	Cluster 1	Cluster 2	Cluster 3	F ratio	Cell contrasts		
		Exportive SIHRM orientation (a) n = 71	Integrative SIHRM orientation (b) n = 35	Adaptive SIHRM orientation (c) n = 49		a-b	a-c	b-c
Recruitment	3.24 (1.18)	4.07 (1.06)	2.91 (.75)	2.28 (.60)	64.70* **	***	***	**
Training	3.99 (1.15)	4.80 (.70)	3.39 (.77)	3.23 (1.12)	57.50** *	***	***	
Promotion	3.31 (1.03)	3.88 (.93)	3.41 (.80)	2.40 (.61)	48.27* **	**	***	***
Appraisal	3.90 (1.16)	4.70 (.80)	3.87 (.72)	2.78 (.88)	81.38**	***	***	***

Similarity measures	n = 155	Cluster 1	Cluster 2	Cluster 3 Adaptive	F ratio	Cell contrasts		
		Exportive SIHRM orientation (a)	Integrative SIHRM orientation (b)	SIHRM orientation (c)		a-b	a-c	b-c
		n = 71	n = 35	n = 49				
	3.24	4.07	2.91	2.28				
Recruitment	(1.18)	(1.06)	(.75)	(.60)	64.70*	***	***	**
	3.99	4.80	3.39	3.23				
					*			
	3.29	3.79	3.54	2.40				
Compensation	(1.17)	(1.20)	(.86)	(.72)	29.49*		***	***
	5.80	6.24	5.97	4.67	**			
Quality control	(1.06)	(.63)	(1.06)	(.96)	40.26*		***	***
					**			

Notes: a. n = number of respondents. b. Mean scores for each similarity measure are presented. Standard deviations for each mean score are shown in parentheses. c. *p<.05, **p<.01, and ***p<.001.

Strategic Role of an Affiliate

This study used the Gupta and Govindarajan scale (2000) that measures knowledge inflow and outflow as a basis of determining the strategic role of each sample affiliate. These measures were included in the senior management questionnaire, and focused on assessing the inflow and outflow of the procedural types of knowledge, namely (1) marketing know how, (2) distribution know how, (3) packaging design/technology, (4) product designs, (5) process design, (6) purchasing know how, and (7) management systems and practices. For each of these seven items, the affiliate senior management was asked to indicate on a seven point Likert type scale that ranged from 'not at all' =1, to 'a very great deal' =7. The responses revealed the extent to which the affiliate engages in transfers of 'knowledge and skills' in each of the following two directions: (1) 'receives knowledge and skills from the parent company' and (2) 'provides knowledge and skills to parent company.' Then, two composite scales were made: the aggregate mean of knowledge inflow scores and the aggregate mean of knowledge outflow scores.

All sample affiliates were divided into four groups depending on their scores for the total volume of knowledge sent and received for each affiliate. As such, each affiliate was categorised into one of the four strategic roles proposed by Gupta and Govindarajan (1991, 2000). As shown in Figure 1, the numbers of observations which were categorised as global innovator, integrated player, implementer, and local innovator were seven, 20, 60, and 66, respectively. The results indicated that the majority of affiliates in the PRC serve as implementers or local innovators.

Figure 1 Frequency Distributions of Sample Affiliates in Each Strategic Context

Resource outflow from the PRC based affiliate to its Japanese parent	High	Global innovator n=7 (4.5%)	Integrated player n=20 (12.9%)
	Low	Local innovator n=67 (43.2%)	Implementer n=61 (39.4%)
		Low	High
Resource inflow to the PRC based affiliate from its Japanese parent			
Note: n = 155			

Three dummy variables were created. These variables were for the constructs of 1) integrated player, 2) implementer, and 3) local innovator. For example, for the construct of integrated player, '1' was assigned when an affiliate was categorised as an integrated player, whereas '0' was assigned when an affiliate was categorised as playing other strategic roles. Similarly, two other dummy variables of implementer and local innovator were generalised based on the cluster analysis results.

Affiliates' Business Strategy in the PRC

To measure compliance with the generic archetypes of the three strategic dimensions involving *cost reduction*, *quality enhancement*, and *differentiation*, the multi item measurement instrument that was developed and validated by Zahra and George (2000) was used in this study. This strategy measure covers items associated with the three strategic dimensions, and was considered suitable for this research. Eight particular items corresponding to the three strategic dimensions were used for scaling. There were three items for measuring cost reduction, two items for measuring quality enhancement, and three items for measuring product innovation. The senior managers of each sample affiliate were asked to rate their business in the PRC on these scales, reflecting their affiliate's actual, rather than planned or desired, activities over the preceding three years. In order to increase the variation of this strategy scale, the original five point response format was extended to a seven point response format which provided for responses to range from 'very true' = 7 to 'very untrue' = 1.

A cluster analysis was administered to categorise all the sample affiliates into the possible strategic types. The results of a cluster analysis with a three cluster solution indicated that the first cluster that was categorised showed highest scores for the items of both differentiation and quality. This cluster was considered to encompass the affiliates' pursuing a product differentiation in terms of product lines and product quality, and was thus labelled 'a differentiation strategy' (n=71). The second cluster showed highest scores for the three cost reduction items. This cluster was considered to comprise those who pursue the extensive reduction of production and operation costs, and was thus labelled 'a cost reduction strategy' (n=35). The third cluster, however, showed no consistent mean scores for any of the three strategic dimensions. That is, the results showed relatively low scores for all items. Thus, the affiliates that fall into the third cluster may be considered to lack a clear strategic focus and thus can be labelled 'reactors' (n=49). Therefore, it may be concluded from this cluster analysis that a quality enhancement strategy cannot be categorised as a unique, single strategy among the PRC based Japanese affiliates sampled. Rather, the respondents from the Japanese affiliates appeared to recognise quality enhancement as part of differentiation strategy (i.e., differentiation in terms of product quality) in the PRC.

Two dummy variables of the cost reduction and differentiation strategies were generated based on the results of a cluster analysis. For example, for the construct of cost reduction, '1' was assigned when an affiliate was categorised as adopting a cost reduction strategy, while '0' was assigned when an affiliate was categorised as choosing other strategic types (i.e., differentiation firms or reactors). In the same way, a dummy variable of differentiation strategy was created and used in the analysis.

Organisational Performance

To assess the organisational and financial effectiveness of the choice of SIHRM orientations by PRC based Japanese affiliates, three measures of affiliates' organisational performance were utilised. These three measures were (1) gross profit margin, (2) return of investment (ROI), and (3) growth rate in market share in the PRC. Since no meaningful data sources for the financial performance of PRC based Japanese business units is currently available, this study was compelled to rely on self reported performance measures. Nonetheless, Dess and Robinson (1984) have suggested that in the absence of objective data, self reported measures constitute an acceptable substitute and are equally reliable. Prior research has also found that organisational performance rated by self reported measures was positively correlated with objective performance indicators (Dollinger & Golden 1992, Powell 1992).

In the senior management questionnaire, the potential respondents to the survey were asked to rate each performance scale on the basis of their affiliate's actual, rather than planned or desired, achievements relative to their competitors over the past three years. A seven point Likert type scale was used to gauge the perceptions of the above three performance indicators, ranging from 'much better than others' =7 to 'much worse than others' = 1.

Control Variables

The following variables were used as control variables when a logistic regression analysis and an analysis of covariance (ANCOVA) were conducted.

- Six industry dummies, including automobile, electric, metalwork, chemical, food, and textile;
- Organisational age as measured by years since the affiliate's funding;
- The natural logarithm of capital assets (capital (log));
- The natural logarithm of the number of employees (number of employees (log));
- A dummy variable on greenfield operation (greenfield = 1, 0 = others);
- A dummy variable on wholly owned affiliates (wholly owned = 1, others = 0);
- A dummy variable on equity joint ventures (EJVs) (EJV = 1, others = 0);
- Percentage (%) of local procurement;
- Percentage (%) of export sales to the total sales in an affiliate;
- Percentage (%) of Japanese expatriates to the total employees in an affiliate;
- A dummy variable on the nationality of Japanese general managers (Japanese = 1, others = 0); and
- A dummy variable on the nationality of Japanese HR managers (Japanese = 1, others = 0).

For these control variables, the data related to the variables on (1) greenfield operation, (2) local procurement, (3) export sales to the total sales in an affiliate, (4) nationality of Japanese general managers, and (5) nationality of HR managers were collected from the senior management questionnaire. The rest of the affiliate background information was obtained from a secondary data source; namely, the database version of The Directory of Japanese Overseas Firms 2004.

Analysis

In order to test the hypotheses relating to factors influencing the choice of each SIHRM mode of the PRC based Japanese affiliates sampled, a series of logistic regression analyses were conducted. For the three dummy variables of SIHRM orientations: the exportive (exportive = 1, others = 0), adaptive (adaptive = 1, others = 0), and integrative (integrative = 1, others = 0) dummies. Table 3 to Table 5 inclusive display the results of these logistic regressions. The use of a logistic regression method was deemed appropriate since the dependent variables of SIHRM choices used in this study were all categorical and dichotomous data, which did not allow the author to apply an OLS regression technique to the analysis of this data.

To test Hypothesis 3 regarding the SIHRM effect on organisational performance, an ANCOVA was conducted to see if there were significant mean differences in organisational performance among the three types of SIHRM orientations. In particular, ANCOVA can assess the mean differences of dependent variables after controlling for a number of background and control variables that may have their extraneous effects on a focal relationship. When estimating the mean differences and the SIHRM effect on performance using ANCOVA, all the control variables used in the logistic multiple regressions of this study were included in the model.

RESULTS

Hypotheses Tests on the Determinants of SIHRM Choices

Table 3 shows regression analyses results for exportive orientations. The extent to which the affiliates choose an exportive SIHRM or not was found to be significantly and positively affected by the size of capital asserts ($\beta = .24$, $p < .01$) and the percentage of product exportation ($\beta = .02$, $p < .05$) from the focal affiliate in the PRC to the rest of the world, including Japan. This indicates that the greater the capital size of an affiliate is, and the larger the percentage of the product exportation from the PRC is, the more likely an affiliate will adopt an exportive approach in managing local HRs. It appears that the affiliates' tendency to follow a product export strategy, and not a market based approach, in the PRC replicates the HRM policies and practices used in their Japanese parent companies. The findings support the hypothesised positive effect of product exportation on the choice of an exportive SIHRM orientation, as displayed in Table 1. Nonetheless, no statistically significant effects were observed regarding the relationships between the choice of an exportive SIHRM orientation and the variables on the strategic role of an affiliate, as hypothesised in Hypothesis 1a. In this sense, the findings failed to support Hypothesis 1a, which stated that the choice of an exportive SIHRM orientation by PRC based Japanese affiliates is positively related to the pursuance of an implementer role.

Table 3 The Results of Logistic Regression Analyses for Predicting Exportive SIHRM Orientation Adopted by the PRC Based Japanese Affiliates

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Odds ratio
Nagelkerke R²	.26	.27	.31	.32	.35	.36	
χ^2	25.52**	26.15*	30.86**	31.89*	35.17*	36.78*	
df	9	12	14	17	20	22	
$\Delta\chi^2$.63	4.71†	1.02	3.28	1.61	
Δdf		3	2	3	3	2	
(Intercept)	-4.33**	-4.87**	-4.76*	-5.87**	-6.16*	-5.92*	
Control Variables							
Automobile	-0.48	-0.46	-0.26	-0.34	-0.53	-0.60	.55
Electric	-0.35	-0.36	-0.36	-0.33	-0.58	-0.60	.55
Metalwork	-22.07	-21.83	-22.08	-22.10	-22.31	-22.34	.00
Chemical	-1.33	-1.42†	-1.31	-1.20	-1.46	-1.47	.23
Food	-1.51	-1.23	-1.05	-1.14	-1.40	-1.53	.22
Textile	-0.03	1.10	-0.21	-0.18	-0.60	-0.48	.62
Organisational age	.00	.01	-.01	.01	.04	.04	1.04
Capital (log)	.22**	.22**	.23**	.24**	.24**	.24**	1.27
Number of employees (log)	.02	.03	-.05	-.04	-.10	-.14	.87

Method of Founding

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Odds ratio
Greenfield operation	.33	-.01	-.03	.03	-.08	.92	
Wholly owned	.19	-.05	-.07	.03	-.01	.99	
Equity JV	.48	.90	1.10	1.00	.97	2.64	
Dependence to local environment							
% of local procurement		.00	.00	.00	.01	1.01	
% of product exportation		.01*	.01*	.01*	.02*	1.02	
Staffing Policy							
% of Japanese expats			.02	.01	.01	1.01	
Japanese manager			.59	.54	.49	1.63	
Japanese HR manager			.29	.26	.40	1.49	
Strategic Role of Affiliates							
Integrated player				.14	.11	1.12	
Implementer				1.03	1.05	2.86	
Local innovator				.12	-.05	.95	
Business Strategy in the PRC							
Differentiation					-.19	.83	
Cost Reduction					.62	1.86	

Notes: a. n = 155. b. †p<.10, *p<.05, **p<.01, and ***p<.001.

Table 4 presents the results of regressive analyses for the adaptive orientations. These results show the use of an adaptive SIHRM approach was found to be positively related to the food industry dummy (? = 2.39, p < .05), and negatively related to the wholly owned type of funding method (? = -1.39, p < .05). In particular, the negative effect of wholly owned affiliates on the choice of an adaptive SIHRM supported the hypothesised positive effect as indicated in Table 1. It appears that the food industry Japanese affiliates, who formed a joint venture with Chinese local partners tended to choose an adaptive SIHRM orientation, which represents a greater resemblance of affiliates' HRM policies and practices to local systems.

Table 4 The Results of Logistic Regression Analyses for Predicting Adaptive SIHRM Orientations Adopted by the PRC Based Japanese Affiliates

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Odds ratio
Nagelkerke R²	.15	.20	.21	.23	.24	.33	
χ²	12.99	17.78	18.19	20.58	21.73	34.28*	
df	9	12	14	17	20	2	

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Odds ratio
$\Delta\chi^2$		4.79	.41	2.39	1.15	12.55**	
Δdf		3	2	3	3	2	
(Intercept)	.58	.47	.50	1.40	1.04	-.41	
Control Variables							
Automobile	.08	-.23	-.28	-.31	-.25	.08	1.09
Electric	-.13	-.44	-.44	-.54	-.50	-.60	.55
Metalwork	2.60*	1.99	2.07	2.16	2.27	2.14	8.47
Chemical	.76	.70	.62	.46	.56	.90	2.46
Food	1.74 [†]	1.57	1.54	1.55	1.61	2.39*	10.67
Textile	.89	1.04	1.07	1.07	1.14	.97	2.63
Organisational age	-.08	-.11	-.10	-.10	-.10	-.04	.96
Capital (log)	-.11	-.10	-.10	-.10	-.10	-.11	.90
Number of employees (log)	.16	.27	.29	.28	.29	.51	1.66
Method of Founding							
Greenfield operation		.28	.38	.30	.29	.46	1.59
Wholly owned		-1.11*	-1.06 [†]	-1.10*	-1.07 [†]	-1.39*	.30
Equity JV		-.75	-.66	-.79	-.78	-.64	.53
Dependence to local environment							
% of local procurement			.00	.00	.00	.00	1.00
% of product exportation			.00	.00	.00	.00	.99
Staffing Policy							
% of Japanese expats				-.04	-.04	-.03	.97
Japanese manager				-.73	-.68	-.56	.57
Japanese HR manager				.29	.26	.33	1.39
Strategic Role of Affiliates							
Integrated player					.03	.75	2.11

Model 1 Model 2 Model 3 Model 4 Model 5 Model 6 Odds ratio

Implementer				.14	.67	1.96
Local innovator				.27	.71	2.04

Business Strategy in Local Settings

Differentiation					-1.93**	.26
Cost Reduction					-2.42**	.12

Notes: a. n = 155. b. †p<.10, *p<.05, **p<.01, and ***p<.001.

Table 4 also contains findings of substantive interest. Indeed, the findings from the regression results of an adaptive SIHRM (as shown in Table 4) show that two business strategy dummies, the differentiation and cost reduction strategies, had significant negative effects on the choice of an adaptive SIHRM orientation ($\beta = -1.93$, $p < .01$ and $\beta = -2.42$, $p < .01$, respectively). In particular, an observed negative sign of the impact of cost reduction on an adaptive SIHRM contradicted Hypothesis 2a, which assumed that a cost reduction strategy would support an affiliate's choice of an adaptive SIHRM orientation. As such, Hypothesis 2a was not supported in the present examination. These findings indicate that PRC based Japanese affiliates that adopt either a differentiation or a cost reduction strategy to target the PRC market tend not to follow an adaptive approach to SIHRM. Rather, affiliates whose strategic focus in the PRC is ambiguous (i.e., reactors) are more likely to choose an adaptive SIHRM orientation, which represents the highest degree of similarity between an affiliate's HRM practices and those of local firms.

Table 5 presents results of regression analyses for integrative orientation. The results show an affiliate's choice of an integrative SIHRM orientation was negatively related to the amount of capital assets each affiliate has in its PRC operations ($\beta = -.24$, $p < .05$). In a similar vein, the choice of an integrative SIHRM orientation had a negative effect on the number of employees, although the regression coefficient of this relationship failed to achieve the conventional level (5%) of statistical significance ($\beta = -.63$, $p < .10$). These findings may indicate that the relatively small operational size of Japanese affiliates means they have the tendency to follow an integrative approach to SIHRM in the PRC. In addition, the logistic regression results in Table 5 indicate that in support of the predictive effect of a funding method of SIHRM, wholly owned Japanese affiliates are more likely to choose an integrative SIHRM than those established in the form of a joint venture with local Chinese firms ($\beta = 1.11$, $p < .10$). Again, the level of statistical significance this effect achieved remained at a 10 per cent level.

Table 5
Model 1 Model 2 Model 3 Model 4 Model 5 Model 6 Odds ratio

Nagelkerke R²	.23	.27	.30	.32	.35	.44
χ^2	19.26*	23.62*	26.22*	28.16*	31.73*	40.87**
df	9	12	14	17	20	22
$\Delta\chi^2$	4.36	2.60	1.94	3.57	9.05*	
Δdf	3	2	3	3	2	
(Intercept)	3.10†	3.97	3.34†	4.19†	4.66†	7.10*
Control Variables						
Automobile	.54	.97	.89	1.18	1.34	1.18 3.25
Electric	.56	.89	1.00	1.18	1.38†	1.31† 3.72

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Odds ratio
Metalwork	.55	1.26	1.78	1.91	1.64	1.26	3.52
Chemical	.51	.80	.71	.82	.97	.22	1.25
Food	-.42	-.70	-.76	-.42	-.36	-1.26	.28
Textile	-19.63	-19.67	-19.39	-19.44	-19.04	-19.22	.00
Organisational age	.08	.11 [†]	.13 [†]	.11	.08	-.01	.99
Capital (log)	-.20*	-.22*	-.21*	-.22*	-.22*	-.24*	.79
Number of employees (log)	-.20	-.31	-.28	-.36	-.33	-.63 [†]	.53
Method of Founding							
Greenfield operation		.84	-.54	-.38	-.54 [†]	-.77	.46
Wholly owned		.97 [†]	1.25*	1.43*	1.22 [†]	1.11 [†]	3.04
Equity JV		-.10	-.49	-.64	.44	-.39	.68
Dependence to local environment							
% of local procurement			.00	.00	.00	-.01	.99
% of product exportation			-.01	-.01	-.01	-.01	.99
Staffing Policy							
% of Japanese expats				-.03	-.02	-.03	.97
Japanese manager				.13	.12	.04	1.04
Japanese HR manager				-.89	-.73	-.93	.39
Strategic Role of Affiliates							
Integrated player					.07	-.40	.67
Implementer					-1.35	-2.26 [†]	.10
Local innovator					-.30	-.29	.74
Business Strategy in the PRC							
Differentiation						2.37**	10.69
Cost Reduction						1.60*	4.97

Notes: a. n = 155. b. [†]p<.10, *p<.05, **p<.01, and ***p<.001.

Table 5 identifies relationships between business strategy variables and SIHRM choices It was found that both the

differentiation and cost reduction strategies had significant positive effects on the choice of an integrative SIHRM ($\beta = 2.37, p < .01$ and $\beta = 1.60, p < .05$, respectively). The observed positive effect of differentiation strategy on an integrative SIHRM strongly supports Hypothesis 2b, which stated that the choice of an integrative SIHRM orientation by PRC based Japanese affiliates is positively related to the pursuance of a differentiation strategy to target the PRC market. Contrary to Hypothesis 2a, however, an unexpected positive effect of cost reduction strategy on integrative SIHRM was also observed, as can be seen in Table 5, indicating that even those affiliates pursuing a cost reduction strategy were likely to favour an integrative SIHRM orientation. In other words, affiliates that have a strong business strategy in the form of either a differentiation or a cost reduction strategy may adopt an integrative SIHRM orientation. It appears that the existence of clear business strategies for survival in PRC markets affects the degree of hybridisation in terms of HRM practices used between Japanese parents and local firms.

A Hypothesis Test on the SIHRM Effect on Organisational Performance

Table 6 displays the results of the ANCOVA for estimating the SIHRM effect on organisational performance (as predicted in Hypothesis 3). Table 6 shows all three performance indicators, including gross profit margin, ROI, and market share growth rate, were found to have statistically significant mean differences depending on the types of SIHRM orientations in the PRC based Japanese affiliates ($F = 4.51, p < .05$, $F = 2.98, p < .05$, and $F = 8.36, p < .001$, respectively). Moreover, the adjusted mean scores (M_{adj}) of all three performance measures were found to be highest for the integrative SIHRM orientation ($M_{adj} = 4.93, 4.58$, and 5.41 for profit, ROI, and market share, respectively), followed by the exportive and then the adaptive SIHRM orientations. These findings provide consistent support for Hypothesis 3, which stated that affiliates with an integrative SIHRM orientation will have significantly higher organisational performance than those with exportive and adaptive SIHRM orientations in the PRC. Furthermore, the results of the ANCOVA (as shown in Table 6) indicate that the mean differences of profit, ROI, and market share growth between integrative and adaptive SIHRM orientations were larger than those between integrative and exportive SIHRM orientations. The performance scores of the adaptive SIHRM orientation were the lowest among the three SIHRM orientations, and remained around the level of $M_{adj} = 3.5$ to 3.8 . As such, the choice of an adaptive SIHRM orientation by Japanese affiliates might not lead to better organisational performance in the PRC.

Table 6 Results of Analyses of Covariance (ANOVA) for Estimating an SIHRM Effect on Performance Measures after Controlling for Various Organisational Characteristics of the PRC Based Japanese Affiliate's Samples

Performance measures	Exportive			Integrative			Adaptive			F ratio	η^2
	M	(SD)	M_{adj}	M	(SD)	M_{adj}	M	(SD)	M_{adj}		
Gross profit margin	4.77	(1.68)	4.80	4.93	(1.34)	4.93	3.82	(1.80)	3.78	4.51*	.08
Return on investment (ROI)	4.40	(1.84)	4.38	4.53	(1.55)	4.58	3.58	(1.85)	3.56	2.98*	.08
Market share	4.47	(1.71)	4.46	5.23	(1.17)	5.41	3.85	(1.79)	3.72	8.36***	.14

Notes: a. M, SD and M_{adj} denote the mean score, standard deviation, and adjusted mean score, respectively. b. M_{adj} represents the adjusted mean score after controlling for the following variables: (1) six industries dummies including automobile, electric, metalwork, chemical, food and textile, (2) organisational age, (3) capital (log), and (4) number of employees (log).

DISCUSSION

With the newly emerging, but increasing market competition in the PRC, determining how firms can outperform competitors through the management of China's abundant and high quality human resources constitutes a major challenge for firms seeking to establish competitive advantages in the PRC. Following the resource based view and the resource dependence perspective of strategic management research (Barney 1991), prior work in the SIHRM field (Taylor, et al. 1996) suggested that the pursuance of a vertical fit among an affiliate's strategic role in an MNC's global business contexts, local business strategies to target the host country's market, and these supporting organisational policies and practices would constitute potent sources of competitive advantages in the market. Using this framework, this study has attempted to examine the role of strategic contexts in determining the choice of SIHRM orientations by PRC based Japanese affiliates. Furthermore, the performance implications of the choice of SIHRM orientations were investigated. The major findings of the study are evaluated and discussed in four sections.

First, in support of Hypothesis 2b, the choice of an integrative SIHRM orientation was found to be positively

related to the adoption of a differentiation strategy to target the PRC market. However, contrary to Hypothesis 2a, an integrative SIHRM was found also to be positively associated with a cost reduction strategy. The prior work on strategic HRM in the domestic business and management context (Sanz-Valle, Sabater-Sanchez & Aragon-Sanchez 1999, Takeuchi, et al. 2003) provided a consistent view that a firm's pursuance of a particular strategy would require a particular set of HRM policies and practices that fit well with the strategy chosen by the firm. In addition, the prior work on HRM in the PRC suggested that the degree of hybridisation would defer depending of what types of market and business strategies were adopted in the local market (Jaw & Liu 2004, Takeuchi, et al. 2004). The present study, however, found that the existence of either a differentiation or a cost reduction strategy within Japanese affiliates constitutes an important push factor for Japanese affiliates to choose an integrative SIHRM orientation in the PRC, which represents a mixed configuration of the parent company's (Japanese) and local (Chinese) HRM policies and practices. In other words, a greater hybridisation of HRM policies and practices would be expected when the affiliates have clear business strategies at the local level in the form of a differentiation or a cost reduction strategy. In this respect, the study can fuel the on going debate in the field of SIHRM by adding to the extant work evidence of a prominent role that clear local business strategies play in implementing a sound hybridisation of HRM policies and practices by PRC based affiliates.

Second, in addition to examining the determinants of an affiliate's SIHRM choices, the study investigated the performance implications of the choice of SIHRM orientations by PRC based Japanese affiliates. In particular, an SIHRM effect on affiliates' performance was tested, using an ANCOVA analytic approach. In support of the assertions made in recent SIHRM work and Hypothesis 3 of this study, affiliates that choose an integrative SIHRM orientation were found to have achieved greater organisational performance than those that choose the two other SIHRM orientations. That is, the exportive or adaptive ones. Specifically, the mean scores of the performance measures used in this study, namely, profit margin, ROI, and market share growth rate, were all found to be significantly higher in affiliates with an integrative SIHRM than in those with an exportive or adaptive SIHRM. Given the present finding that the choice of an integrative SIHRM orientation requires clear local business strategies to a certain extent, high organisational performance may be brought about by the hybridisation of the HRM practices of the Japanese parent and local affiliates, the adoption of which, however, necessitates the formulation of clear strategic visions and objectives for gaining success in the PRC market.

The study findings have important implications for both researchers and practitioners that there would be a sort of sequencing or causality initiating from the formulation of clear local business strategies, through the hybridisation of HRM practices, to the increased organisational performance of PRC based Japanese affiliates. Given this implication, future research should test the mediating role of an integrative SIHRM orientation that may exist in strategy performance relationships in the PRC.

Third, the logistic regression results regarding an adaptive SIHRM orientation, demonstrated that both the differentiation and cost reduction strategies had significant and negative impacts on an affiliate's choosing an adaptive SIHRM orientation. This may mean that affiliates without clear consistent business strategies in the market (i.e., reactors) tend to follow an adaptive approach, which relies mostly on local (Chinese) ways of managing HRs in Japanese affiliates. A salient finding of the ANCOVA analysis was that all the performance indicators of the PRC based Japanese sample showed the lowest scores for affiliates choosing an adaptive SIHRM orientation even after controlling for a number of organisational background variables. Putting these findings together, it can be concluded that low performing Japanese affiliates tend to adopt an adaptive SIHRM orientation, which appears to be initiated by the lack of clear local market and business strategies in the PRC. This clearly suggests that localisation of HRM practices without any clear strategic goals would lead to business failure of the PRC operations. Localisation of human resources has long been considered an important policy for effectively managing an MNC's overseas operations (Potter 1989). Some recent studies have also asserted the need of localisation related HRM policies and practices for successful localisation and the resulting level of organisational performance, especially for foreign owned firms in the PRC (Wong & Law 1999, Law, Wong & Wang 2004). The findings of this study cast doubt on the effectiveness of using excessive localisation practices, especially when the affiliates do not have well planned market strategies in the PRC. One recent research study by Lam, Yim, Schaubroeck, and Tse (2004) reported, consistent with the findings of the present study, that the positive impact of staff localisation on affiliate performance only continues to a certain point. Beyond this point, the costs of a high degree of staff localisation outweigh the benefits, and the negative effect of an increase in localisation beyond an optimal point becomes stronger, especially under a condition of high environmental uncertainty. Thus, the present findings, as well as the findings of this earlier study, suggest that a moderate level of localisation of HRM practices might be needed to build high performing organisations in PRC based affiliates.

Finally, however, the study failed to support the predictive effects of an affiliate's strategic role in global, inclusive management contexts on the choice of SIHRM orientations as presented in Hypotheses 1a to 1c. Following recent arguments in SIHRM that applied a resource dependence perspective to the theory (Taylor, et al. 1996, Beechler & Gosh 1998), it was hypothesised in this study that the choice of SIHRM orientations would be affected by which strategic role the affiliates play in their PRC operations: an implementer, a local innovator, or an integrated player. The regression results showed that none of the variables related to the global strategic role had significant effects on the choice of either an exportive, adaptive, or integrative SIHRM orientation. One possible reason for the absence of statistically significant effects of affiliates' strategic role would be a misfit or mismatch between a Western based theory and the practice of SIHRM by Asian firms, especially Japanese MNCs operating in the PRC. A number of studies have demonstrated that the strategic decision making processes of Japanese firms are more complex and

more subject to human and relational factors than those of their Western counterparts (Kagono, Nonaka, Sakakibara & Okumura, 1985, MacDuffie 1995). Moreover, the market and business environment of the PRC, which is characterised by a socialist market economy, is fundamentally different from that of many Western, mature market economies. As such, there seem to be a number of factors that prevent the study from obtaining the predicted effects of affiliates' strategic role which have been theorised in Western management contexts. However, given that little empirical evidence of this issue has been reported to date, further research is needed to test the global strategy effects on the SIHRM choices of MNCs in and from Asia-Pacific countries. An accumulation of these studies would serve as more solid evidence to evaluate the effectiveness and applicability of Western based SIHRM theory in these areas.

CONCLUSION

This study has offered some additional evidence that the formulation of clear market and business strategies as a form of either a differentiation or a cost reduction strategy enables PRC based Japanese affiliates to choose an integrative SIHRM orientation, where the maximum hybridisation of their parent company's HRM practices with local (PRC) ones is realised. The performance enhancement via the choice of an integrative SIHRM was also confirmed in the present study. Affiliates whose market strategic visions and objectives were relatively ambiguous tend to choose adaptive SIHRM orientations, which were found to perform poorly in the PRC. Thus the study provides partial, but important evidence to fuel the on going debate on strategic fit in the SIHRM research field, offering strategy and performance implications of SIHRM choices for PRC based Japanese firms. Perhaps this study is one of the few empirical investigations that have tested the strategy effects on SIHRM and the hybridisation processes of Japanese firms, using multiple data sources including both senior manager's and HR manager's questionnaire surveys, as well as publicly available data.

Despite these possible contributions, however, this study has several limitations that necessitate caution when interpreting the results. First, the sample size of this study was around 150, which may not be sufficiently large for obtaining robust findings using multivariate statistical analyses including a logistic regression technique. The smallness of a sample might underestimate the real strategy effects on SIHRM choices as well as the true SIHRM effects on performance. Although the relatively small sample of the data may not be an issue specific to the present study, more effort needs to be made in the data collection processes in future studies. Second, following the current SIHRM arguments, the study focused on an examination of multiple strategy impacts on SIHRM choices. Given the specific nature of Japanese management, especially in PRC operations, there may be a number of pull and push factors of HRM hybridisation which are unique to PRC based Japanese affiliates. In particular, some studies have asserted the importance of 'guanxi' (Chinese personal ties) in understanding broader managerial and business issues in the PRC (Chow & Ng 2004). Future research is, therefore, encouraged to include both the antecedents and consequences of an affiliate's choice of SIHRM orientations that consider not only a Western based theory in particular, but also Asia Pacific business and management issues in general. Third, the study relied on a cross sectional survey method by which strategies, SIHRM, and affiliates' outcome data were collected at the same time, although these data were obtained from two different informants in each sample affiliate; that is, senior and HR managers. However, a longitudinal survey design is needed to provide more robust evidence of causalities among affiliates' business strategies, SIHRM mode, and organisational performance. Thus, future researchers who intend to replicate this study might be encouraged to more carefully conduct a longitudinal survey and examine the causal paths of the relevant variables. Thus it is recommended that a longitudinal survey be conducted with ample time intervals between the measurements of the different variables, as well as their sequencing.

The present study has attempted to examine the factors influencing the choice of SIHRM orientations made by Japanese affiliates, with a particular focus on the role of affiliates' local business strategies in the PRC market. This is an initial attempt, and thus further investigation is needed to provide more evidence relating to strategy HRM links by taking not only a quantitative, but also a qualitative approach. A substantial accumulation of empirical research that tests the contingency fit between strategy and HRM in relation to the performance consequences of firms in the PRC would help generalise the findings of the study and provide a better understanding of this relationship.

AUTHOR

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