

## Chapter 1

### Introduction



#### 1. Introduction

To be able to compete in the global market, a firm needs to build up its competitive advantage. Several empirical evidence has shown that it is vital for the firm in any particular country to create and sustain competitive advantage in the global market (Porter, 1991). Sources of competitive advantage have been suggested by international business researchers (Slater, 1996; Porter, 1991). Evidently, all sources come from both internal and external factors of the firm (Dunning, 1995). External factors, so called exogenous factors, include factors such as the host culture, political imperativeness, market demand, foreign exchange rate, suppliers, labor unions, etc. (Dunning, 1995). Internal factors, so called endogenous factors, include people, corporate culture, management process, management practices, corporate strategy, corporate structure, research and development, etc. (Dunning, 1995). The question of how the firm achieves its competitive advantage over its competitors rests on today's researchers to find out which internal and external factors of the firm explain differing competitive success (Porter, 1991; Yip, 1989; Yip, 1995; Ghoshal, 1992).

For companies that compete within the same market or environment, internal factors such as strategy, corporate culture, management practices, company's technology, etc. play a major role in the company's success (Porter, 1991; Yip, 1995; Rosenzweig and Nohria, 1993). Dunning (1995) notes that it is implicitly assumed that the prosperity of the firm depends exclusively on the way where the firm's management internally organizes the resources and capabilities at its disposal. The firm is assumed to manage its assets and skills combined with each other to create further value-added advantage. Among internal factors of the firm, management practices and strategy are the critical internal factors that can bring success to the

company because they are difficult for company's rivals to imitate. Evidently, strategy and management practices have also been identified as essential sources of competitive advantage (Schneider and Barsoux, 1997).

Strategy is used as a tool to create competitive advantage. The complexity of organization that requires management to integrate and coordinate operations across multiple national environments highlights the importance of strategy (Bartlett and Ghoshal, 1991). Strategy is seen as a way of integrating the activities of the functional departments within a firm to ensure the consistency of employees' actions.

A variety of levels and types of strategies are used in the firm (Root and Visudtibhan, 1992). For example, control strategy is a strategy to determine the process by which one entity influences the behavior and output of another entity (Ouchi, 1977). When a firm goes to the internationalization stage in the host country, the firm conducts control strategy at the business level to choose which entity - the firm itself or its business partner - has authority to run or influence business. In this study, types of strategy that are investigated are international strategies at the corporate level of multinational corporations under the strategic predisposition framework proposed by Heenan and Perlmutter (1979).

Strategic predisposition explained by Heenan and Perlmutter (1979) is the tendency of company's practices, processes, systems, strategies, and structures in different business functions. Heenan and Perlmutter (1979) describe four distinct types of strategic predisposition, so called the EPRG profile which consists of *ethnocentrism*, *polycentrism*, *regiocentrism*, and *geocentrism*. These four types of strategic predisposition are formed by many factors including organizational stage, leadership style, and managerial practices. International strategies in the framework of strategic predisposition consist of *standardization strategy* under ethnocentrism, *national responsiveness strategy* under polycentrism, *regional integration strategy* under regiocentrism, and *global integration with local responsiveness strategy* under geocentrism (Chakravarthy and Perlmutter, 1992). A proper selection of a firm's international strategy in

strategic predisposition framework can help the firm achieve and sustain competitive advantage by adapting itself to its competitive environment (Laurent, 1993). For example, international strategy concerning the integration between headquarters and subsidiaries tends to benefit and create synergy to the company (Caligiuri and Stroh, 1995). In addition, international strategies under strategic predisposition can well explained the influence of host and home-office environment concerns such as national cultures of both host and home-office, stage of companies, etc. (Schneider and Barsoux, 1997).

Management practices are conceptualized as socially and organizationally embedded ways of conducting organizational functions such as human resource function (Newman and Nollen, 1996). Human resource function involved in the strategic activities of the firm is particularly critical to successful implementation of practices in human resource function between headquarters and subsidiaries (Lorange, 1993). Practices in human resource function, specifically called human resource management practices, within multinational corporations represent a new domain that lies in the emerging issue of cross-cultural management in international business. In addition, human resource management practices reflect corporate cultural artifacts which are the visible layer of the firm's corporate culture bringing large attention to today's business and researchers (Hofstede et al., 1990). Previous research in international business suggests that human resource management practices consist of *employee participation, clarity of work direction, employee contribution, reward system at management level, employment security, selection by job competence, and control* (Newman and Nollen, 1996; Pucik, 1993; Laurent, 1993; Hofstede et al. 1990). Newman and Nollen (1996) note that no single management practice is superior to another with respect to the firm's outcome. Bigoness and Blakely (1996) remark that human resource management practices have increasingly been shown to critically influence the firm's outcome which includes competitive advantage. However, previous research has provided a limited supporting evidence of the relationship between human resource management practices and competitive advantage (Barney and Wright, 1998).

Furthermore, the link between international strategy and human resource management practices is an interesting issue in connecting strategic management to human resource management field. Conceptual research suggests that there is a link between these two areas. However, the empirical research of these two areas is hardly found. For example, the empirical study by Bird and Beechler (1995) has investigated the link between business strategy and human resource management practices of Japanese subsidiaries in the USA. However, the empirical study of the link between international strategy under strategic predisposition framework and human resource management practices has not been found. This present study, therefore, investigates international strategy and human resources management practices of multinational corporations that can lead competitive advantage, and the link between international strategy and human resource management practices

To date, competitive advantage is sought after by the firm in order to survive and gain profits in the competitive environment. Most executives accept that the premise of developing competitive advantage is necessary for achieving superior performance (Slater, 1996). For example, IBM Thailand is using regional integration strategy to create competitive advantage by pooling resources within the region. This international strategy results in reduced operational costs and increased profits. Integrating and rotating IBM resources region-wide can lower labor costs by rotating skillful people around the region and increase productivity and innovation of the company. In brief, pooled human resources in the region can give an opportunity to create higher innovation and to reduce labor costs (Harris and Moran, 1993).

Studies on the topic of competitive advantage are rarely found in the context of subsidiaries (Yip, 1995). Thus, research related to competitive advantage is needed to be done in order to extend the knowledge at this level. Corporate practices and strategy that lead to competitive advantage in the overall corporation perspective may not benefit the performance of a particular subsidiary. Thus, this research empirically studies competitive advantage at the subsidiary level.

Porter (1990) proposes that *innovation and productivity* are measures of competitive advantage. Innovation and productivity can be measured objectively and subjectively. Many research studies in international business have developed measures of competitive advantage subjectively by interviewing top management level of the firm (Gopalakrishnan, 1995). However, the managerial accounting discipline can also be used to measure competitive advantage objectively (Kaplan, 1990; Kaplan and Atkinson, 1998; Kaplan and Norton, 1992). Kaplan and Norton (1992) suggest that a firm can employ managerial financial ratios to measure the managing excellence of the firm in areas of innovation and productivity.

Kaplan and Atkinson (1998) remark that a firm needs to exploit its intangible assets, including human resource skill and strategy, to enhance the competitive edge. The financial accounting model should have expanded to incorporate the valuation of company's competitive advantage.

## 2. Statement of The Problem

Until recently, the dominance of American management theory has led to the belief that "One size fits all" that a good manager in the US is also a good manager in other countries, and that effective US strategy and management practices are effective anywhere (Newman and Nollen, 1996; Levitt, 1991). Strategy and management practices in one cultural environment have been deemed valid for any other environment. The societal and cultural context of strategy and management practices in international business studies have long been ignored or overlooked by both researchers and practitioners (Hofstede, 1984; Laurent, 1993). However, as business has become increasingly global, the transferability of management theories related to strategy and management practice across national borders and cultures has become the debated topic (Bigoness and Blakely, 1996; Adler and Jelinek, 1986; Laurent, 1993). Thus, the study relating international strategy and human resource management practices is an interesting

research topic in international business. The result can explain the debated topic whether international strategy and human resource management practices can give impact on the company, especially in the subject of competitive advantage.

There has been an increasingly significant amount of case study research about international strategy and competitive advantage as well as human resources management practices and competitive advantage of companies in the United States, Japan, and Europe. Most research is conducted at the overall corporation level. However, the study on competitive advantage in the host country context has been rarely found in international business research. In looking to the future through the perspective of the competitive advantage topic, the interesting trends of research in the international business management area are conceivable to built up the full picture of a multinational corporation at the overall corporation and host country levels.

Thus, this study examines the relationship of international strategy and human resource management practices with competitive advantage of the international companies at the subsidiary level in Thailand.

### **3. The Purpose of The Study**

The major purpose of this study is to investigate whether international strategy and human resource management practices can create and sustain competitive advantage. This study also investigates the link between international strategy and human resource management practices. The emphasis of this dissertation is focused on the Thai electronics industry. The underlying justification to select the electronics industry is explained later in Chapter 3. Three research questions are investigated as follows.

1. To what extent is international strategy in strategic predisposition related to competitive advantage of the international firms in the Thai electronics industry ?

2. To what extent are human resource management practices related to competitive advantage of the international firms in the Thai electronics industry?

3. Is there any difference in human resource management practices within international strategy in strategic predisposition of international firms in the Thai electronics industry?

#### **4. Scope of The Study**

1. The sampling frame of this study is the group of subsidiaries of multinational corporations including both joint ventures and wholly owned subsidiaries from the electronics industry in Thailand.

2. The study focuses on the firm's international strategy and human resource management practices and examine them with firm's competitive advantage. The scope of international strategy, human resource management practices, and competitive advantage relating in this study is explained in Chapter 2. Cross-sectional study approach is used in this study. This study is conducted in 1999-2000.

#### **5. Contribution**

The result of this dissertation is expected to contribute in three folds: 1) theoretical aspect; 2) empirical aspect; and 3) practical aspect.

##### **1. Theoretical aspect**

This dissertation attempts to extend the existing competitive advantage framework. In addition, this study attempts to integrate the knowledge of three disciplines: 1) strategic management; 2) human resource management; and 3) managerial accounting. The explanations are shown as follows.

1.1) Buckley and Casson (1976) extend the foreign direct investment theory by adding the concept of internalization. One factor of internalization is the firm's specific advantage which reflects the ability of management in the business environment (Rayome and Baker, 1995). Later, Buckley and Casson (1998) suggest that future researchers extend their internalization theory by adding more corporation variables such as strategy, corporate culture, structure, and management practices. Human resources management practices and international strategy are the critical corporation variables contributing to the firm's specific advantage (Rosenzweig and Nohria, 1993). Both variables are particularly critical to the success of business implementation between headquarters and subsidiaries. This study, therefore, introduces variables of international strategy and human resources management practices to extend the internalization theory.

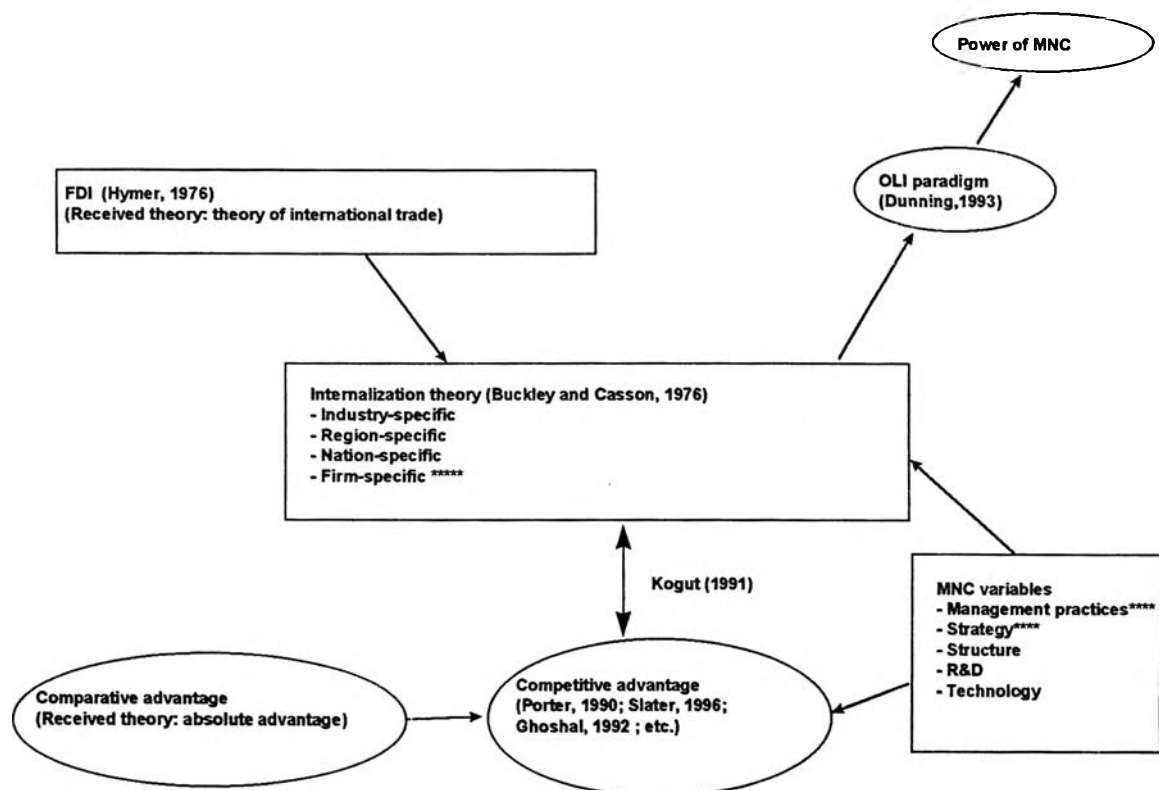
To date, competitive advantage is a popular research topic because it helps a firm to survive and grow (Slater, 1996). The majority of studies in the area of competitive advantage focuses on external factors of the firm such as market demand, political imperativeness, etc. (Dunning, 1998). Internal factors, such as human resource management practices and international strategy, have not been investigated thoroughly (Dunning, 1995). Porter (1991) suggests that future researchers extend the competitive advantage framework by studying more variables in a company.

Kogut (1991) states that competitive advantage and firm's specific advantage are the same terminology. However, the review of the past research shows that firm's specific advantage and competitive advantage are derived from different theories. While firm's specific advantage is introduced by foreign direct investment theory, competitive advantage is derived from the comparative advantage in industrial economics discipline. Therefore, this study attempts to add a better understanding of the competitive advantage framework and the firm's specific advantage framework by introducing two corporate variables - human resource management practices and international strategy. (See Figure 1.1.)



To extend the internalization theory and competitive advantage framework, the study introduces international strategy and human resource management practices as factors contributing to firm's competitive advantage in the scope of host-country environment, but the global perspective. This can integrate the field of human resource management to strategic management.

**Figure 1.1: Theory Development of Firm's Specific Advantage and Competitive Advantage**



1.2) The objective measurement of competitive advantage has been overlooked in the international business research. This study employs the knowledge in the area of managerial accounting to measure competitive advantage objectively. Thus, this study uses two dimensions of competitive advantage - innovation and productivity - from managerial accounting standpoint as an initiative benchmark of measurement in the field.

## 2. Empirical aspect

This study attempts to empirically explain the relationship of international strategy in strategic predisposition and human resource management practices with competitive advantage in the host country context. In addition, the result of this study can shed light into the link between international strategy in the strategic predisposition framework and human resource management practices.

## 3. Practical aspect

Subsidiaries of multinational corporations in the electronics industry in Thailand may use the result from this study to help create and sustain their competitive advantage. The findings of this research is also useful to the academic knowledge for any future international companies that want to invest in Thailand.

## **6. Organization of The Study**

This study consists of five chapters. Chapter 1 includes the introduction of the study, statement of the problem, the purpose of the study, and contribution of the study. Chapter 2 discusses the relevant literature regarding the areas of international strategy, human resource management practices, and competitive advantage, and the hypotheses. Chapter 3 explains the research methodology used for this study in the Thai electronics industry, questionnaire

development, and data collection procedures. Chapter 4 explains the results of hypothesis testing across the population of the electronics industry in Thailand. Finally, Chapter 5 concludes the study and discusses its future research.