Chapter 2

Literature Review

The increasing competition of business leads firms to find approaches to sustain competitive advantage in order to maintain profit and to survive. In today's business environment, the traditional sources of competitive advantage cannot provide enough sustainable edge (Pucik, 1993). To sustain competitive advantage, firms need to manage their internal operations properly (Dunning, 1995). Internal operations of the firm, so called internal factors, internal drivers, or endogenous factors which include production costs, firm's technology, firm's financial resources, organizational structure, management practices, and organizational strategy, can mainly influence the firm to create or sustain competitive advantage (Dunning, 1995; Yip, 1995). The proper management of firm's internal factors is difficult for its rivals to imitate and helps the firm to sustain its competitive advantage in the long run period (Dunning, 1995; Porter, 1990; Kogut, 1991). Pucik (1993) notes that low production cost, technology advancement, and financial resources have become necessary, but they are not sufficient for firms to succeed. Instead, human resource management practices and international strategy are witnessed as major strategic tools that uphold the competitive position of global firms (Pucik, 1993; Porter, 1990; Yip, 1995). The objective of this chapter is to review the literature relevant to this study. Firstly, this chapter discusses international strategy, human resource management practices, and competitive advantage. Secondly, it describes the proposed model of this study. Thirdly, it outlines the hypotheses of the relationship between internationai strategy and competitive advantage, the relationship between human resource management practices and competitive advantage, and the link between international strategy and human resource management practices.

1. International Strategy

The term 'Strategy' is rooted from the Greek word *strategos* which means "commander of the army". Strategy is first introduced in the context of war and army. It has been devised to achieve national gain. In business, strategy is defined as the means for achieving corporate objective. In term of implementation, strategy is employed to integrate the firm's activities among departments to ensure the consistency within the firm.

The notion of strategy became popular in the 1960s when firms faced more competition and limited resources. Many levels of strategy have been used in a firm. Root and Visudtibhan (1992) note that three levels of strategy - functional, business, and corporate - exist in a firm. For example, in the marketing function, four Ps strategies, i.e. pricing, place, promotion, product strategies, play the important role for the firm to compete in gaining the market share. At the business level, control strategy is conducted as a way for the firm to control its activities. All these functional and business strategies have to be compatible with an overall corporate strategy. To fully comprehend a firm's strategy, therefore, a researcher needs to take into account of all 3 different levels. Thus, international strategy in this study is taken into account at the corporate level.

Several researchers have defined international strategy as the means by which a firm seeks to gain competitive advantage from its international pressure through either concentrating configuration and coordination among disperse activities, or both (Porter, 1992). However, there is a great deal of conceptual ambiguity about what the international strategy really means (Ghoshal, 1992). Root and Visudtibhan (1992) also point out that there is no widely accepted definition of international strategy.

Since international strategy is widely defined, this study focuses on international strategy in strategic predisposition framework by Heenan and Perlmutter (1979).

Strategic predisposition

Strategic predisposition is defined as the tendency of the company's strategy, structure, process, and system to dictate the company's behavior in a variety of business functions. Strategic predisposition is shaped by several factors such as leadership styles, past practices, etc. (Chakravarthy and Perlmutter, 1992; Malnight, 1995). Heenan and Perlmutter (1979) describe four strategic predispositions as follows.

1. Ethnocentrism

All strategic decisions in this predisposition are guided by the value of the parent company. Such a firm has the universal standard to conduct its business worldwide (Chakravarthy and Perlmutter, 1992). The headquarters decide how and what management systems and processes are conducted (Schneider and Barsoux, 1997; and Malnight, 1995). National culture of the parent company can mainly influence subsidiaries (Caligiuri and Stroh,1995).

2. Polycentrism

All strategic decisions in this predisposition are employed to fit the host culture where the firm conducts its business. The business practice is concerned with the way of local culture (Chakravarthy and Perlmutter, 1992). The local company decides how the local firm conducts management systems and processes, while the headquarters decide what management systems and processes are used (Schneider and Barsoux, 1997). The influence of national culture of the parent company is relatively small (Caligiuri and Stroh, 1995).

3. Regiocentrism

This predisposition tries to blend the interest of regional headquarters and its subsidiaries. Business practices are concerned with the regional integration (Chakravarthy and Perlmutter, 1992). The regional headquarters serves as a buffer to negotiate between the home country company and subsidiaries in the particular region (Schneider and Barsoux, 1997) The influence of national culture of the parent company is relatively small (Caligiuri and Stroh, 1995).

4. Geocentrism

This predisposition seeks to integrate diverse subsidiaries in the network global system to the decision making system (Chakravarthy and Perlmutter, 1992). Policies and procedures in business practices, what and how, are developed from all input of the home country company and across subsidiaries (Schneider and Barsoux, 1997). The national culture of both parent company and subsidiaries seems to less influence the firm (Dunning, 1993). The multinational corporation in this predisposition desires an integration of all foreign subsidiaries and headquarters (Caligiuri and Stroh, 1995). The company staffs positions worldwide such that the best people are recruited for positions, regardless of nationality (Yip, 1995). Headquarters can be moved to any location or country at any time according to which location or country offers the most benefits.

Schneider and Barsoux (1997) suggest that the strategic predisposition framework can also serve the cultural assumptions used by the company. In other words, strategic predisposition framework can describe cross-cultural management of the corporation how the firm contributes to cross-cultural management knowledge and awareness. They propose that the ethnocentric business practice assumes that cultural difference or cross-cultural issue is irrelevant to business operation. Firms choose to ignore cultural differences. They operate their business the same way throughout the world. Polycentrism and regiocentrism are to minimize the impact of cultural differences. These two practices recognize that cultural differences are important and firms try to minimize potential conflicts from these cultural differences. However, polycentrism only avoid the conflict with local culture. It does not bring home country culture to benefit. Geocentrism utilizes cultural differences as a source of competitive advantage. Firms with geocentric practices integrate all input with different cultures to operate across the company. This requires the finding of proper balance between local responsiveness and global integration. (See Table 2.1).

Table 2.1: Summary of Cultural Assumption Related to Types of Strategic Predisposition

Predisposition	Cultural assumption concern	Cultural assumption practice
Ethnocentrism	Standardization	Ignoring cross-cultural issue
Polycentrism	Local concern	Minimizing cross-cultural issue
Regiocentrism	Regional integration	Minimize somewhat cross-cultural issue
Geocentrism	Global network	Utilizing cross-cultural issue

Source: Schneider and Barsoux (1997)

International strategy in strategic predisposition

Most researchers use the international strategy labeled into two extremes of strategic focus. Examples of two extremes of strategic focus are *unification/fragmentation* (Fayerweather, 1969), *worldwide integration/national responsiveness* (Doz, 1980), *global focus/multidomestic focus* (Porter, 1985), and *standardization/differentiation* (Robock and Simmonds, 1989). However, there are no pure international strategy in the real world business. International strategy rests on somewhere between these two extremes. Chakravarthy and Perlmutter (1992) suggest four types of international strategy in strategic predisposition framework: *1) standardization strategy; 2) national responsiveness strategy; 3) regional integration strategy; and 4) global integration with local responsiveness strategy.* These four types of international strategy can describe somewhere between two extremes of strategic focus. Moreover, international strategy in strategic predisposition framework can explain degree of local concern in business practices. Firm's international strategy in strategic predisposition are described as follows.

1. Standardization strategy

Standardization strategy is described under ethnocentrism (Chakravarthy and Perimutter, 1992; and Maddox, 1993). Standardization strategy is predominantly concerned with firm's viability worldwide. The key management positions centralize the parent-country control in decision making. The firm that choose to implement standardization strategy is likely to ignore cross-cultural assumptions in management practices.

2. National responsiveness strategy

National responsiveness strategy is described under polycentrism (Chakravarthy and Perlmutter, 1992; and Maddox, 1993). National responsiveness strategy is primarily concerned with legitimacy in every particular country that the firm operates its business. However, both parent-company and subsidiary employees are unable to gain the valuable global perspective. Their careers are limited because they are never able to experience the international learning transfer.

3. Regional integration strategy is described under regiocentrism (Chakravarthy and Perlmutter, 1992; and Morrison et al., 1992). Regional integration strategy is concerned with blending interests of the company with subsidiaries on a limited regional basis. This international strategy requires the highly sophisticated communication and integration systems to maintain control and rotate region-wide firm's resources.

Morrison et al. (1992) propose that some companies are not ready to go global. Rather, they go regionalization. Their conceptual idea is based on industry standard remaining diverse, local demand for differentiated products, critical implementation of standardization, and difficulty to manage a global company. However, this conceptual idea leads to the controversial discussion in research because the firm practically cannot limit itself to do business within a particular region. Most multinational corporations do business beyond the particular region. Caligiuri and Stroh (1995) suggest that the international strategy under polycentrism is similar to the one under regiocentrism. Their reason rests on that region is consistent with some national boundary. In addition, regional integration strategy issue under regiocentrism is emerging and is under controversy.

4. Global integration with local responsiveness strategy

Global integration with local responsiveness strategy is described under geocentrism (Chakravarthy and Perlmutter, 1992; and Maddox, 1993). Global integration with local responsiveness strategy is concerned with integrating firm's diverse subsidiaries through a global system. Best people are recruited for the job positions regardless of nationality. This international strategy permits the greatest amount of local discretion and the greatest amount of decentralization while maintaining overall integration (Edstrom and Galbraith, 1977).

Thus, this study introduces three international strategies in strategic predisposition: *1) standardization strategy* under ethnocentrism; *2) national responsiveness strategy* under polycentrism and regiocentrism; and *3) global integration with local responsiveness strategy* under geocentrism.

Each international strategy is likely to influence human resource management practices in relatively specific ways. Human resource management practices at any level is important to strategy implementation (Hamel and Prahalad, 1994; Prahalad, 1983). With regard to local concern described by the strategic predisposition framework, human resource management practices are imposed to fit international strategy. Edstrom and Galbraith (1977) also note that international strategy of a multinational corporation has major influence on human resource management practices. For example, a multinational corporation with standardization strategy would likely impose human resource management practices which reflect home office. While, a multinational corporation with national responsiveness strategy would likely impose human resource management practices that reflect local concerns.

Consequently, the multinational corporation is likely to be more effective if they match their orientation of their international strategy with human resource management practices (Mabey and Salaman, 1995). The inconsistency of human resource management practices of the need of the multinational corporation and international strategy may lead to the decline of efficiency, responsiveness, and competitiveness. Maddox (1993) notes that international strategy in strategic predisposition framework should match with human resource management practices to attain firm's higher performance. The next two sections review human resource management practices and competitive advantage.

2. Human Resources Management Practices

There is a significant effort to seek models, frameworks and perhaps solutions in management of a multinational corporation with respect to human resource management (Schuler, et al., 1993). Liouville and Bayad (1998) note that human resource management practices are one of the firm's major factors contributing to its success.

Human resource management exists to put human energy to productive use, essential for both profit-seeking and nonprofit-seeking organizations. Two forms of human resource management relationships include the relationship between a manager and his or her subordinates and the relationship between a manager and the human resource management department (Novit, 1979). The relationship between the manager and subordinates exists the responsibility for directing and supervising the work of subordinates. The relationship between the manager and the human resource management department is to provide the supporting services for the overall organization (Novit, 1979). Six areas within these two human resource management relationships consist of planning for human resources, recruitment and selection, public policy and personnel selection, development and appraisal, compensation and productivity, employee maintenance, and labor management relations (Novit, 1979). Each area includes the particular functions as follows.

1. Planning for human resources

Planning for human resources includes functions of human resource planning and organization staffing level. Human resource planning function is concerned with the long and short term goal prepared for the available and needed personnel. It is also related to types of individuals needed in the future. Organization staffing level function is concerned with the proper numbers of persons required within the organization. Both functions require the shared responsibility between the human resource department and any other operating department such as marketing.

2. Recruitment and selection area

Recruitment and selection area includes recruitment and selection functions. Recruitment function consists of finding applicants with the required skill for the particular positions. While selection function consists of the set standard of choices to select the most qualified applicants. The selection process is also concerned with the legal pertaining restriction to equality employment. Human resource management requires more creativity and flexibility in recruiting and employment to secure types of individuals needed to implement firm's strategy (Czinkota and Ronkainen, 1996).

3. Development and appraisal area

Development and appraisal area includes functions of training, management development and career planning, and performance appraisal. Training function is to provide employees the proper skills and abilities to handle their jobs. Even though the area of recruitment and selection brings the potential employees to the organization, the particular position requires the particular skills and abilities to fill the responsibility. Training function can provide the job requirement and need the coordination between the other operating department and human resource department. Moreover, training is the process for behavior change or behavior modification. The function of management development and career planning is related to college recruiting to provide the adequate supply of future personnel. It is concerned with the other process of human resource management to insure the proper quality and quantity of future managers. Lastly, the performance appraisal function provides the performance standard of employees. The function can either reward or penalize employees who work for required jobs.

4. Compensation and productivity area

Compensation and productivity area includes functions of wage and salary administration and labor costs. The wage and salary administration function provides the relationship between the employees' contribution and the wages received. The salary scale must be related to the labor market. The function of labor costs is related to the relationship of salary payment and the company's output both products and services. These functions are referred to the job enrichment, behavior modification and organizational development. They can help employees reduce feeling of malaise and dissatisfaction.

5. Employee maintenance area

Employee maintenance area includes the functions of employee benefits and services as well as employee safety and health. The function of employee benefits and services is conducted in the regard of programs of fringe benefit. Some are required by law, while some are offered voluntarily. The function of safety and health is required by law to provide the guidance for employees.

6. Labor relations area

Labor relations area includes functions to bargain for workers over wages, hours, compensation, and working conditions. Functions in this area are introduced through the negotiation process and administration of labor agreement.

Human resource management practices as corporate cultural artifacts

In anthropological perspective, culture is sought to understand how and why contemporary peoples of the world differ in their customary ways of behaving, on the one hand, and how and why they share certain similarities, on the other (Ferraro, 1990). Culture consists of two aspects which are realistic and idealistic aspects (Bidney, 1976: 71-80). According to the realistic aspect, culture is the natural phenomenon among other phenomena with unique characteristics and unique behavior that are observable and amenable to scientific study. For the idealistic aspect, culture is an organization of laws or norms of behavior that exist in the mind of the individuals who transmit these norms to the succeeding generations (Gamst and Norbeck, 1976: 5). Contemporary anthropologists define culture in term of human relationships to one another (White, 1976: 71). Practices in the particular society which are designed by culture bearers in order to handle other members can reflect human relationships in society. In other words, practices can be viewed as the cultural products within the society (Laurent, 1993). Thus, practices are cultural artifacts reflecting the basic assumptions of realistic and idealistic aspects of culture.

An organization holds particular sets of assumptions, ideas, beliefs, and values on how to manage employees to attain the firm's goal. These particular sets which are so called corporate culture are translated into human resource management practices (Laurent, 1993). Hofstede et al. (1990) support that practices are the component of corporate culture. Practices are explained that they are visible to an observer although their cultural meaning lies in the way they are perceived by members of that corporate culture. In addition, corporate culture is in part managed through human resource management practices (Schneider, 1993). Laurent (1993) notes that different organizations have developed different ways of human resource management practices. Moreover, the contemporary researchers suggest that multinational corporations are properly viewed as a nexus of different practices (Hedlund, 1986; Bartlett and Ghoshal, 1987; Bartlett and Ghoshal, 1989; Rosenzweig and Nohria, 1993).

Human resource management practices in the multinational corporation

In organization's theoretic terms, human resource management practices in multinational corporations are shaped by the interplay of opposing pressures for between internal consistency within the corporation and existence of local institutional environment (Dunning, 1993; Prahalad and Doz, 1981; Doz and Prahalad, 1993; Rosenzweig and Nohria, 1993; Schuler et al., 1993).

The past empirical study by Rosenzweig and Nohria (1993) suggests that human resource management practices tend to follow isomorphism of local practices which would turn human resource management practices to look similar among different multinational corporations. Some human resource management practices may have to comply with local laws and regulations. In other instances, a subsidiary of the multinational corporation may seek to resemble local practices in order to compete more effectively in local labor markets. However, the specific practices of human resource management as suggested by several researchers such as Hofstede et al. (1990); Schuler et al. (1993); Newman and Nollen (1996); Caligiuri and Stroh (1995); and Dyer and Reeves (1995) tend to follow the influence of the internal consistency pressure within the multinational corporation. This can be explained that the multinational corporation requires consistent communication among inter-units of global network of the corporation. The multinational corporation may adopt a consistent set of human resource management practices around the world. The multinational corporation is concerned with operating effectively in several different countries. Therefore, some specific human resource management practices are influenced by multinational corporation itself rather than local practice imperativeness. In addition, the power of multinational corporations theory can explain why multinational corporations tend to conduct some human resource management practices that are not enforced by local laws (Dunning, 1993). This can simply explain that regarding the consistency pressure to cooperate and coordinate among multinational corporations' network, multinational corporations tend to choose practices that can best fit their network rather than local environment.

The review of the past literature shows that seven human resource management practices which consist of *1) employee participation; 2) clarity of work direction; 3) employee contribution; 4) reward system at management level; 5) employment security; 6) selection by job competence; and 7) control* are less conformed with local pressure environment imperativeness (Hofstede et al., 1990; Newman and Nollen, 1996; Rosenzweig and Nohria, 1993; Dyer and Reeves, 1995; Schneider, 1993; Laurent, 1993; Pucik, 1993). According to Beer, et al. (1985) and Bae, Chen, and Lawler (1998), these seven human resource management practices in addition fall into four broad human resource management areas: 1) human resource flow (selection by job competence, employment security); 2) work system (clarity of work direction, control); 3) reward system (reward system at management level); and 4) employee influence (employee participation, employee contribution). In principle, these human resource management practices may vary independently (Bae, Chen, and Lawler, 1998). Regardless of local pressure environment imperativeness, multinational corporations may employ these seven human resource management practices differently. Different ways to employ these seven human resource management practices from firm's rivals may lead multinational corporations to have better competitive advantage position over their rivals.

Although the suggested seven human resource management practices are more neutral to local environment imperativeness, these human resource management practices should be consistent to the firm's overall strategy so that the synergy between human resource management practices and strategy leads to operating efficiency in multinational corporation's subsidiaries. The next section reviews competitive advantage.

3. Competitive Advantage

Competitive advantage is derived from the notion of comparative advantage in the field of economics. The concept of comparative advantage is that factor-cost or factor-quality differences among countries lead to manufacturing of products in the particular country with an advantage (Porter, 1990). The country exports these products elsewhere in the world. The competitive advantage derives less from where the firm conducts the production activities. Rather, it focuses more on how the firms conducts business activities to gain the advantage over its rivals (Porter, 1990). Analogously, the comparative advantage is one element of the competitive advantage (Porter, 1990). Porter (1990) summarizes that comparative advantages of firms are specific to firm's activities among locations. Kogut (1991) refers comparative advantage as location specific advantage. It influences the firm's decision as to where the firm should conduct its business. The decision is based on costs of factors relative to other locations. The competitive advantage is referred as firm specific advantage that influences the firm to decide what activities along the value added chain it should conduct and focus (Kogut, 1991; Buckley, 1990).

Competitive advantage is defined as the advantage of one firm relative to another firm (Buckley, 1990). Today's firm is seeking to create and to sustain competitive advantage in order to be successful. Developing competitive advantage within the firm draws more attention from managers in order to achieve superior performance leading to profit maximization and survival in the competitive business world (Slater, 1996). In order for the firm to maintain maximum profit and survive in the competitive environment, the firm must achieve efficiency, manage risks, and innovate learning and adaptation (Ghoshal, 1992). Ghoshal (1992) proposes that three sources of competitive advantage are national differences, scale economies, and scope economies. (See Table 2.2).

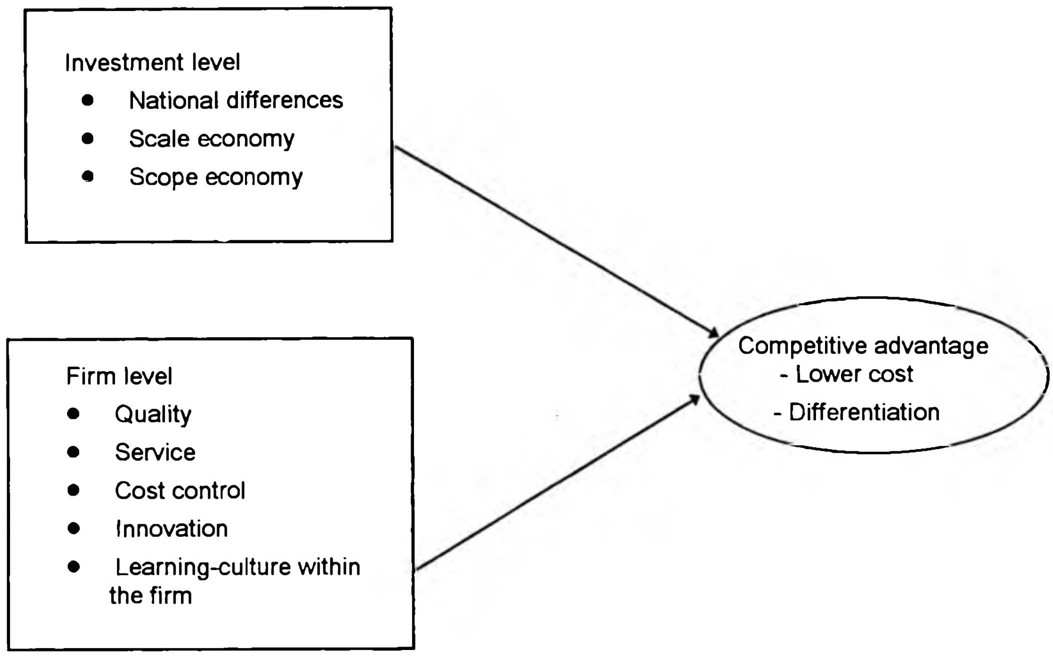
Table 2.2 : Sources and Goals of Today's Firms

Objectives	Source of competitive advantage		
	National differences	Scale economies	Scope economies
Efficiency	Benefiting from different factors: wages	Expanding potential scale	Sharing investment and costs across products, markets, and businesses
Risk managing	Risk portfolios	Balancing scale with operational flexibility	Creating options and side-bets
Innovation learning and adaptation	Learning social differences in organization, process, and system	Reducing costs	Pooling company resources across products, markets, and businesses

Source: Summarized from Ghoshal (1992).

At the firm level, Slater (1996) proposes three key issues to achieve and sustain competitive advantage including customer value of product or service, superior value by providing the greatest benefits to customers through differentiation strategies, and sustainable superior value by ability to prevent the competition from undermining competitive advantage. Firm's specific capabilities to sustain the firm's competitive advantage are quality, speed, excellent service, cost control, innovation, and learning-culture of the firm. Bartlett and Ghoshal (1987) suggest that a firm can create its competitive advantage from its network coordination. The firm can pool and share resources to reduce costs and build up its innovation (Porter, 1991; Kogut, 1991; Yip 1989; Yip, 1995). Porter (1990) suggests two basic types of competitive advantage: lower costs and differentiation. (See Figure 2.1).

Figure 2.1: Level of Factors Influencing Competitive Advantage



Note: The above model is compiled from Slater (1996), Porter (1992), and Ghoshal (1992)

Differentiation advantage is the ability to produce the unique products with superior value in term of quality, special feature, and better after-sales services. Lower cost advantage is defined as the ability of a firm to produce, design, and market the relative product more efficiently than its competitors. This includes conducting all kinds of activities within the firm at the low costs with highly productive labor and manufacturing technological process obtained by purchase or license. Two types of the competitive advantage take on the additional dimension which is the competitive scope of the firm (Porter, 1991; Dicken, 1992). The scope focus of the firm applies the firm-activity conduct on broad or narrow front. The scope of competitive advantage is the breadth of the firm's target. The firm must choose the range of products that the firm plans to produce. The broad front scope reflects that the company has the wide product lines. The narrow front is generally known as the niche strategy.

Competitive advantage can be measured by innovation, productivity, learning, efficiency, managing risk, and product quality (Porter, 1990; Slater, 1996; Ghoshal, 1992; Duncan et al., 1998). This present study employs innovation and productivity to measure firm's competitive advantage because both innovation and productivity can well cover the other proposed measures. Innovation reflects differentiation advantage, and productivity reflect lower cost advantage (Porter, 1990). Both innovation and productivity can be measured objectively in the field of managerial accounting (Kaplan, 1990). However, most research in competitive advantage creates scale and questions to measure competitive advantage subjectively (Gopalakrishnan, 1995). This study introduces measure of firm's competitive advantage by using accounting ratios that are well accepted by managerial accounting researchers in measuring innovation and productivity of the firm. It enables to integrate knowledge of managerial accounting discipline into the area of international strategic management. (See Table 2.3).

Table 2. 3: Summary of Measure of Innovation and Productivity in Managerial Accounting

Innovation	Researcher Reference
• Number of new product or new model introduced in the market • New product sales/total sales • Pay for share-of-new product sales • Field repair/unit in field • Defect in final test/unit shipped per week • Ability to eliminate non value-added activities • Flexibility or setup time (speed to respond new market opportunity)	Peter (1990) Peter (1990) Johnson (1990) Johnson (1990) Johnson (1990) and Peter (1990)
Productivity	**Researcher reference**
• Number of shipment on time • Return on investment • Inventory in plant/$ material in unit shipped • The consumption of highest cost factor per unit • Shippable units of output per shift • People/equipment capacity usage ratio • Cost per unit of output • Sales per employee • Production per employees • Profitability • Payroll $/units shipped per week • Material $/ units shipped per week • Output/input	Johnson (1990) Johnson (1990) Johnson (1990) Armitage and Atkinson (1990) Armitage and Atkinson (1990) Armitage and Atkinson (1990) Armitage and Atkinson (1990) Armitage and Atkinson (1990) Chew, Breshnahan, and Clark (1990) Johnson (1990) Johnson (1990) Chew, Breshnahan, and Clark (1990)

Note: This table is summarized by researcher.

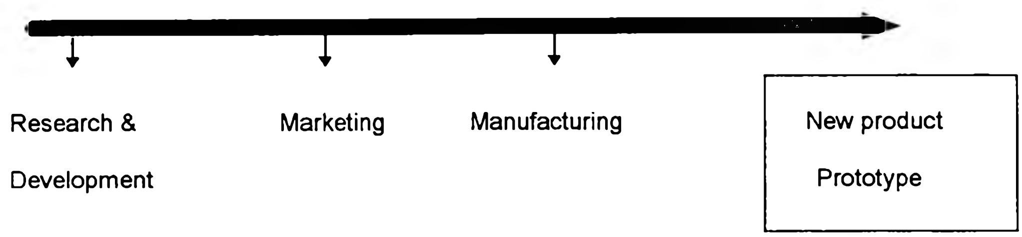
Innovation has a wide variety of definitions (Bradbury, 1989). Davenport (1993) simply defines innovation as introduction of something new. Porter (1990) defines innovation as practices created by learning or discovering new methods to improve competitiveness within the same industry and presenting the result to markets. In conclusion, innovation is simply referred to new idea, new invention, new design, and new development. In this study, innovation has been classified into process innovation and product innovation (Gopalakrishnan, 1995).

Process innovation is defined as revolutionary changes in a structured set of activities designed to produce a specified output for a particular customer or market (Davenport, 1993).

Afuah (1998) also defines process innovation as new methods, techniques, materials, task specifications, or equipment in an organization's manufacturing and service operations to offer lower cost or better quality products. Davenport (1993) and Davidson (1976) suggest that customer satisfaction is one measure of process innovation. Several studies suggest that quality of product is one proxy to measure customer satisfaction (Porter, 1990; Afuah, 1998; Kaplan, 1990; Johnson, 1990; Leonard-Barton, 1995).

Product innovation is defined as new products introduced to the market and new brand name introduced to the market. Product innovation ranges within the development of research and development, marketing, and manufacturing (Davenport, 1993 and Leonard-Barton, 1995; Bradbury, 1989; Gardiner and Rothwell, 1985). The result of these three stages in product development is new product prototype which can create the competitive advantage of the company. (See Figure 2.2). Thus, an important measure of product innovation includes new product prototype introduced to the market. Moreover, Birnbaum-More (1995) suggests that speed to the market is a measure of new product development. The first movers of new products tend to win the loyalty of its rival's customers and the entry barriers (Birnbaum-More, 1995; Porter, 1990). However, it has been shown in some cases that the very first mover does not do very well as economically as those who follow later quickly. Products in the electronics industry have the very short product life cycle (Das, 1998). It is very important for the firm in this industry to respond with speed to the market. Otherwise, the firm's products are obsolete in the market.

Figure 2.2: Development of New Product



Source: Davenport (1993)

Productivity as a measure of competitive advantage represents the efficiency of the company. It can help the firm to have lower operating costs. This can reflect lower cost competitive advantage suggested by Porter (1990). Productivity is defined as the relationship of outputs of goods or services in real physical volume to inputs of the basic labor and non-human resources used in the process of business (Kendrick, 1981; Johnson, 1990). However, different disciplines define productivity differently (Johnson, 1990). For example, productivity in engineering is viewed as efficiency using ratio of useful work of input and output. This type of ratio can be applied to input and output separately or jointly. Productivity in psychology is viewed as effectiveness and quality of work life. Measurement of productivity is the ratio of output to weighted index of input factors such as labor and capital (Craig and Harris, 1973).

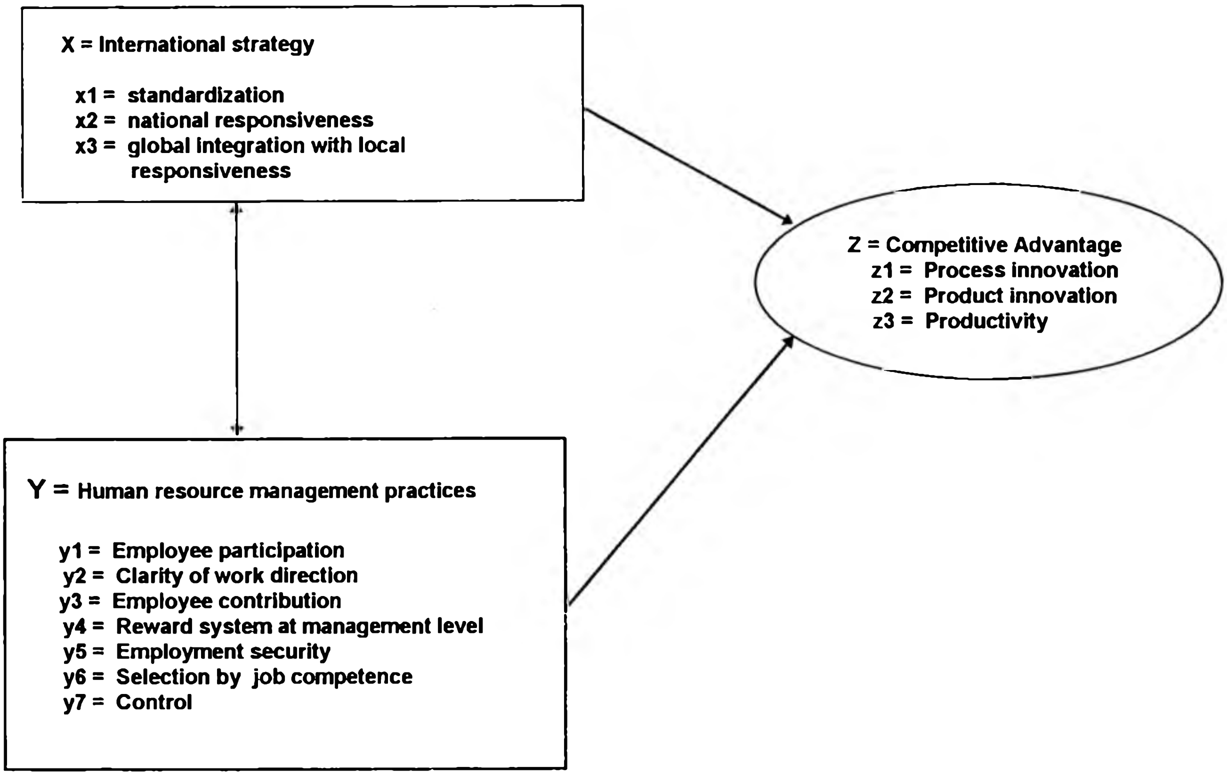
To sum up, the past empirical research shows that international strategy is the main tool of a multinational corporation to uphold competitive advantage (Porter, 1990; Yip,1995; Bartlett and Ghoshal, 1989) The multinational corporation enters the global competition with the reason to expand its home country market into global markets in order to increase larger revenue and to match with higher volume of production. Because the size of the home country market is not enough for the multinational corporation to reach scale economy of production. In addition, the multinational corporation enters host countries by setting international units called subsidiaries with the purpose of finding new market opportunity and outsourcing better resources of host countries such as cheap labor, labor skill, and cheap raw materials. Thus, the multinational corporation needs to implement its international strategy to manage its global network in order to achieve competitive advantage (Yip, 1995). Chakravarthy and Perlmutter (1992) suggest that a multinational corporation would select type of its international strategy that best fits its management system in order to attain competitive advantage over its rivals.

In addition, the proper human resource management can enhance competitive advantage of multinational corporations. Fombrun and Wally (1993) note that multinational corporations need to properly internalize their human resource management practices required to succeed in global competition. A multinational corporation needs to adapt its human resource management practices globally across its inter-unit networks (Dunning, 1993; Tichy et al., 1993). Moreover, human resource management practices should be focused on specific organizational capacity to secure competitive advantage by managing people inside multinational corporations on the task of winning the global competition (Pucik, 1993).

4. The Proposed Model of This Study

To extend the competitive advantage framework, this study asserts that international strategy and human resource management practices explained in the earlier sections can contribute to competitive advantage. Details of international strategy and human resource management practices contribution to competitive advantage can be identified in Model shown in Figure 2.3.

Figure 2.3: Proposed Model of International Strategy in Strategic Predisposition, Human Resource Management Practices, and Competitive Advantage



The proposed model shows the relationships explained in the following sections.

5. The Relationship between International Strategy and Competitive Advantage

Over the past few years, the relationship between strategy and competitive advantage has captured wide attention by academic researchers in international business area (Ghoshal, 1987). Porter (1990) suggests that a firm seeks to build corporate strategy that can create competitive advantage. The relationship between international strategy and competitive advantage has been strongly provided with many empirical studies. Competitive advantage has been studied as dependent variable in strategic management research. However, the scope of the studies about competitive advantage are focused on the context of overall corporation.

Research on competitive advantage in the host-country context has been rarely done. As already explained in section 3, competitive advantage is defined as the advantage of one firm relative to another firm (Buckley, 1990). To measure competitive advantage, this study employs innovation and productivity (Porter, 1990; Buckley, 1990). Innovation simply refers to new idea, new invention, new design, and new development (Bradbury, 1989; Davenport, 1993; Porter, 1990). Innovation is categorized into process innovation and product innovation (Gopalakrishnan, 1995). Product innovation is defined as new products introduced to markets; whereas, process innovation is new methods or techniques to offer lower costs or better quality of products (Davenport, 1993; Afuah, 1998). Productivity is the relationship between output of goods or services in real physical volume and input of basic labor and non-human resources.

Since this study is to investigate the proposed model by studying the electronics industry in Thailand, technology is one critical issue that should not be overlooked when researchers study innovation and the electronics industry. Porter (1992) note that researchers in the filed of strategic management should be concerned with the influence of technology when they study competitive advantage topic. However, according to Porter (1992) and Boulton, Dowling, and Lohmeyer (1992), scope of one industry can serve technology as an exogenous variable in the research study. The study of the case of Japanese firms in Asia by Beechler (1992) finds that companies in the same industry would use similar technology. In addition, Since the scope of this study is to investigate the relationship of international strategy under the description of strategic predisposition and human resource management practices with competitive advantage under managerial accounting ratios. The purpose of this study is to investigate internal factors - international strategy and human resource management practices - that cannot be easily imitated by other firms. Kim, Yoon, and Hong (1994) note that firms in the electronics industry in Southeast Asian countries including Thailand heavily depend on foreign direct investment and technology import. Kim (1999) support that the heavy reliance of foreign direct investment of less developed countries may, in some extent, lead to technology import . Kim (1980) also support that, in the electronics industry, international technology transfer is more frequent source of generation of new technology than contractual research with local research and development (R&D) or internal R&D efforts in the implementation stage where the electronics industry in less developed countries are located. As such, subsidiaries of international firms can gain technology by purchasing it from outside or receiving it from home office (Das, 1998). This study, therefore, take technology into account of an exogenous variable.

In this study, international strategy is defined as the means to achieve the company's objectives. Most research on international strategy rests on two extremes of strategic focus, namely global focus and host-country focus. Global focus represents international strategies such as standardization, unification, etc.; host-country focus represents international strategies such as national responsiveness, differentiation, etc.. Chakravarthy and Perlmutter (1992) suggest that four international strategies in strategic predisposition framework are recognized between two general strategic focuses. Theoretically, international strategy in strategic predisposition framework includes *standardization strategy, national responsiveness strategy, regional integration strategy, and global integration with local responsiveness strategy.* However, Caligiuri and Stroh (1995) empirically found that it appears to have three international strategies under an explanation of strategic predisposition framework. These three international strategies include one under ethnocentrism, one under polycentrism as well as regiocentrism, and one under geocentrism.

1) Standardization strategy

Standardization strategy is defined as a strategy under ethnocentrism. This type of strategy is predominantly concerned with firm's viability worldwide (Chakravarthy and Perlmutter, 1992). International strategy in strategic predisposition and competitive advantage have more positive relationship when international strategy is more concerned with utilizing local and home cultural assumption (Yip, 1995). Thus, standardization strategy gains less synergy from local people (Harris and Moran, 1993; Maddox, 1993; and Caligiuri and Stroh, 1995). This can lead to less innovation in uses of local expertise. Harris and Moran (1993) note that synergy reflect the company's performance. Johnson (1990) remarks that the company's performance includes innovation and productivity. This leads to the following hypotheses.

H1.1: Standardization strategy is negatively related to process innovation.

H1.2: Standardization strategy is negatively related to product innovation.

H1.3: Standardization strategy is negatively related to productivity.

2) National responsiveness strategy

National responsiveness strategy is a strategy under polycentrism as well as regiocentrism. This type of strategy primarily focuses on local interest (Chakravarthy and Perlmutter, 1992). Local employees manage the subsidiary, and expatriates are rarely found. National responsiveness strategy can reduce local conflict, but it does not benefit advantage from the home office (Maddox, 1993; Malnight, 1995; Caligiuri and Stroh, 1995). This leads to the following hypotheses.

H1.4: National responsiveness strategy is negatively related to process innovation.

H1.5: National responsiveness strategy is negatively related to product innovation.

H1.6: National responsiveness strategy is negatively related to productivity.

3) Global integration with local responsiveness strategy

Global integration with local responsiveness strategy is defined as a strategy under geocentrism. This type of strategy is concerned with integrating firm's diverse subsidiaries through a global system (Chakravarthy and Perlmutter, 1992). Business practices of utilizing both local and home cultural assumption are guided by global integration with local responsiveness strategy. This strategy can lead to more synergy within the firm and reduce internal conflict, and it can benefit all resources within the entire corporation worldwide. For global integration with local responsiveness strategy, the multinational corporation can relatively benefit scale economy of its production, synergy with local expertise, less conflict with local employees (Porter, 1990; Yip, 1995; Caligiuri and Stroh, 1995). This leads to the following hypotheses.

H1.7: Global integration with local responsiveness strategy is positively related to process innovation.

H1.8: Global integration with local responsiveness strategy is positively related to product innovation.

H1.9: Global integration with local responsiveness strategy is positively related to productivity.

Table 2.4 summarizes the hypothesized relationship between international strategy and competitive advantage.

Table 2.4: Hypothesized Relationships between International Strategy in Strategic Predisposition Framework and Competitive Advantage in Host Country Context

International Strategy	Innovation (Process & Product)	Productivity
Standardization strategy	- Maddox (1993); Yip (1995); Harris and Moran (1993); Caligiuri and Stroh (1995)	- Maddox (1993); Yip (1995); Harris and Moran (1993); Caligiuri and Stroh (1995)
National responsiveness strategy	- Maddox (1993) Malnight (1995) Caligiuri and Stroh (1995)	- Maddox (1993) Malnight (1995) Caligiuri and Stroh (1995)
Global integration with local responsiveness strategy	+ Porter (1990), Yip (1995) Caligiuri and Stroh (1995)	+ Porter (1990) Yip (1995) Caligiuri and Stroh (1995)

6. The Relationship between Human Resource Management Practices and Competitive Advantage

Academics and managers have both sought to understand the factors to determine competitive advantage for many years (Barney and Wright, 1998). The past conceptual research suggests that the multinational corporation attempts to find the best approach to manage its human resources to achieve competitive advantage (Porter, 1990; Pucik, 1993; Yip, 1995). Because of recognition of the potential for human resource management practices to provide competitive advantage, academics have extended competitive framework by introducing human resource management practices (Barney and Wright, 1998).

To the extent that some human resource management practices are more effective than others in contributing to competitive advantage, the multinational corporation can benefit in implement such practices for success in global markets. The empirical work on relationship between human resource management practices and performance (e.g. Terpstra and Rozelle, 1993) has demonstrated that human resource management practices do provide value to the firm. Lado and Wilson (1994) explore the potential for human resource management practices to be a source of competitive advantage. However, the empirical study of relationship between human resource management practices and competitive advantage is rarely found (Dyer and Reeves, 1995; Laurent, 1993).

The concept of human resource management practices influenced by internal consistency among subsidiaries and headquarters of the multinational corporation has been introduced to international business research. Different multinational corporations have different ways to implement human resource management practices (Laurent, 1993). Several measures of human resource management practices are proposed by previous research to describe the impact of human resource management practices on competitive advantage (Pucik, 1993; Laurent, 1993). As already discussed in section 2 of this chapter, human resource management practices employed in this study include *1) employee participation, 2) clarity of work direction, 3) employee contribution, 4)reward system at management level, 5) employment security, 6) selection by job competence, and 7) control.*

1) Employee participation

Employee participation is defined as firm's practices that focus on employees' involvement (Mabey and Salaman, 1995). This type of practice reflects a matter of management style (Hofstede et al., 1990). The company with high employee participation practices is likely to take group decision making (Hofstede, 1992; Reynolds, 1986; and Ansoff, 1979). Synthesized from the literature, human resource management practice emphasizing on employee participation in the corporation can lead to synergy within the corporation (Maddox, 1993) This leads to the following hypotheses.

H2.1: Greater employee participation is positively related to process innovation.

H2.2: Greater employee participation is positively related to product innovation.

H2.3: Greater employee participation is positively related to productivity.

2) Clarity of work direction

Clarity of work direction is defined as firm's practices that reflect clarity of procedures, functional strategies, plans, and systems (Newman and Nollen, 1996). For example, well-understood rules help employees reduce uncertainty and cope with discomfort from unknown situations (Hofstede et al., 1990). Newman and Nollen (1996) suggest that clarity of work direction can lead to better performance of the firm. This leads to the following hypotheses.

H2.4: Greater clarity of work direction is positively related to process innovation.

H2.5: Greater clarity of work direction is positively related to product innovation.

H2.6: Greater clarity of work direction is positively related to productivity.

3) Employee contribution

Employee contribution is defined as practices that focus on employee's responsibility for accomplishing goals (Newman and Nollen, 1996; Hofstede et al., 1990). This type of firm's practice is a matter that employees achieve work goals of the company (Hofstede et al., 1990). Barney and Wright (1998) suggest that employee contribution is one of essential factors in human resource management practices contributing to competitive advantage. Reichheld (1996) notes that people contribute to firms in terms of efficiency and performance. This leads to the following hypotheses.

H2.7: Greater employee contribution is positively related to process innovation.

H2.8: Greater employee contribution is positively related to product innovation.

H2.9: Greater employee contribution is positively related to productivity.

4) Reward system at management level

Reward system at management level is defined as firm's practices that reflect executive employees' opportunity of earnings, recognition, advancement, and achievement based on their performance (Mabey and Salaman, 1995; Pucik, 1993). Mabey and Salaman (1995) note that reward system is a human resource management factor that can contribute to firm's performance. This leads to the following hypotheses.

H2.10: Greater reward system at management level is positively related to process innovation.

H2.11: Greater reward system at management level is positively related to product innovation.

H2.12: Greater reward system at management level is positively related to productivity.

5) Employment security

Employment security is defined as firm's practices that provide long term employment. Such practices can reflect how company solves problems for the long term rather than short term (Raelin, 1985; Newman and Nollen, 1996). Newman and Nollen (1996) suggest that employment security can affect performance of the firm. The firm with high employment security has better performance than that with low employment security. This leads to the following hypotheses.

H2.13: Greater employment security is positively related to process innovation.

H2.14: Greater employment security is positively related to product innovation.

H2.15: Greater employment security is positively related to productivity.

6) Selection by job competence

Selection by job competence is defined as the firm's practices to select type of employees by job competence. Hofstede et al. (1990) note that such practices can reflect types of company employees - professional or parochial. For parochial type of employees, the employees' identity is determined by the employees' belonging to the company. The company tends to hire employees by their social background rather than their job competence. Employees primarily identify themselves that they work for the particular company. For example, they identify themselves as 'I work for Company A'. For professional type of employees, the employees' identity is determined by their profession. The company hires employees by their job competence. For example, they identify themselves as 'I am the electrical engineer'. Raelin (1985) suggest that a company with selected professional employees has better performance than that with selected parochial employees. This leads to the following hypotheses.

H2.16: Greater selection by job competence is positively related to process innovation.

H2.17: Greater selection by job competence is positively related to product innovation.

H2.18: Greater selection by job competence is positively related to productivity.

7) Control

Control is defined as the firm practices to maintain the organization within the desired standard (Hofstede et al., 1990; Schein, 1993; and Reynolds, 1986). Arthur (1994) suggests that control is one of the human resource management practices. The multinational corporation exercises the practices of control to ensure that subsidiaries follow the standard of the corporation (Pucik, 1993; Dunning, 1993). Roithmayr (1981) notes that loose control practice of the firm results in firm's excellence performance. This leads to the following hypotheses.

H2.19: Greater control is negatively related to process innovation.

H2.20: Greater control is negatively related to product innovation.

H2.21: Greater control is negatively related to productivity.

Table 2.5 summarizes the hypothesized relationship of human resource management practices to competitive advantage.

Table 2.5: Hypothesized Relationships between Human Resource Management Practices and Competitive Advantage at Subsidiary Level

Human resource management practices		Innovation (Process+Product)	Productivity
Employee participation	high low	+ - Maddox (1993)	+ - Maddox (1993)
Clarity of work direction	high low	+ - Newman and Nollen (1996)	+ - Newman and Nollen (1996)
Employee contribution	high low	+ - Reicheld (1996)	+ - Reicheld (1996)
Reward system at management level	high low	+ - Mabel and Salaman (1995)	+ - Mabel and Salaman (1995)
Employment security	high low	+ - Maddox (1993)	+ - Maddox (1993)
Selection by job competence	high low	+ - Raelin (1985)	+ - Raelin (1985)
Control	high low	- + Roithmayr (1981)	- + Roithmayr (1981)

7. The Link between International Strategy and Human Resource Management Practices

There is a closer link between international strategy and human resource management practices (Schneider, 1993; Mabey and Salaman, 1995). The empirical work between strategy and human resource management practices (e.g. Bird, Tylor, and Beechler, 1998) has demonstrated that strategy and human resource management practices appear to have a closer link. Beechler and Bird (1994) explore the relationship between business strategy and human resource management practices of 60 Japanese affiliates in the US service and manufacturing industry. However, the empirical study of the link between international strategy and human resource management practices has been overlooked in international business research (Schneider, 1993). The firm should use human resource management practices that fit with its chosen international strategy to reduce conflict that probably occurs at subsidiary (Harris and Moran, 1993; Wright et al., 1994). For example, when a multinational corporation first introduces global integration with local responsiveness strategy to its subsidiaries in order to replace national responsiveness strategy, and the newly introduced strategy does not fit the existing human resource management practices. The change may lead to an unexpected turnover of skillful employees because of the inconsistency between international strategy and human resource management practices. Schneider and Barsoux (1997) note that international strategy in strategic predisposition enables to describe the company's concern with the employee at the subsidiary location. Concern with local employees is described as cross-cultural concern. As explained in section 1 of this chapter, international strategies described under the strategic predisposition framework have different cross-cultural concerns. Thus, firms with different international strategy conceptually have different ways to conduct human resource management practices (Schneider and Barsoux, 1997; Maddox, 1993; Hofstede et al., 1990; Schneider, 1989). This leads to the following hypotheses.

H3.1: Firms with different international strategies have different human resource management practice of employee participation.

H3.2: Firms with different international strategies have different human resource management practices of clarity of work direction.

H3.3: Firms with different international strategies have different human resource management practices of employee contribution.

H3.4: Firms with different international strategies have different human resource management practices of reward system at management level.

H3.5: Firms with different international strategies have different human resource management practices of employment security.

H3.6: Firms with different international strategies have different human resource management practices of selection by job competence.

H3.7: Firms with different international strategies have different human resource management practices of control.