

**LINKAGES BETWEEN LOCAL SMEs AND FOREIGN FIRMS
IN THE ECONOMIES AFFECTED BY THE ASIAN FINANCIAL
CRISIS :THE CASES OF KOREA, MALAYSIA AND THAILAND**

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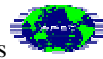
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ABSTRACT

A stimulating but theoretical hypothesis could propose that the more internationalized local SMEs were before July 1997, the more resilient they might have been to the East Asian Crisis, especially compared with the purely domestic market oriented SMEs.

Based on a SME survey conducted for UNCTAD in Korea, Malaysia, and Thailand during the first semester of 1999, the above hypothesis was tested in the case of local SMEs linked to foreign affiliates:

1. The export-oriented SMEs have been generally more resilient than the non-internationalized SEMs, which have been dramatically affected by the sharp decline of domestic demand.
2. Only a small percentage of those SMES linked to foreign affiliates (through subcontracting or other contractual arrangement) have been able to sustain the crisis better than expected. There are many qualitative data research problems to be addressed before being able to be more specific and focused.
3. An even smaller proportion of those SMEs financially linked to foreign partners (through direct FDI inflows and joint ventures) have been particularly resilient. Although small entrepreneurs do welcome in principle more FDI for a prompt recovery of the whole national economy, a vast majority of SMEs prefer to remain locally family owned and are not prepared to open up their equity to foreigners. In times of rising globalization pressure, it remains to be seen (a) whether domestic oriented SMEs or internationalizing SEMs are better suited to the economic and social needs of the economies affected by the recent crisis, and (b) how the two approaches can be reconciliated considering that only a minority of SMEs are able to expand overseas.

Among various factors, the internationalization of SMEs has to cope with various HRD constraints and weaknesses. This is particularly true in the case of Thailand. A crux of human resource development for Thai SMEs is the way national competitiveness can be built by the learning process of management and the upgrading of technology and know-how. Theoretically, learning to master the management and improving of self-technology are important factors for Thai SMEs' capability to produce and export goods and services up to international standards, quality, and price wise. Thus, the country will be able to gain export market shares in order to sustain the currently timid economic recovery. Scientific and technological education, R&D, and vocational skills training are thus of central concern in the drive toward increased competitiveness for SMEs, which was already declining during the 1995-1996 before the crisis.

However, based on recent surveys, there are evidences of improperly developed and implemented public policy with the result of major weaknesses in HRD for most Thai SMEs such as:



- Shortage of graduates in technical subject-Shortage of technicians(blue collar workers)-
Low primary and secondary education of workers
- Availability and quality of vocational training programs Since late 1998, a new SME government strategy during 1999-2003 is being developed for the first time in Thailand, but it remains to be seen how government can come up with appropriate and concrete actions.
- The 1999-2003 target to strengthen 8,400 exiting SMEs and to cratenother 24,000 SMEs seems too ambitiuos?
- For the moment, with the help of Miyazawa plan funding, the Department of Industry Promotion under the MOI has created the SME institute and two the Automotive and Electronic Institutes. This came in addition to many fragmented, uncoordinated, and non-evaluated training programs in existance so far.
- Two of the most original instruments are (a) an international support mechanism for securing manpower for SMEs and (b) the creation of a standardized skill certificate in cooperation with the private sector.
- The biggest controversy is the proposal of higher education privatization. Doesm it mean that reduced public spending will concentrate more on primary and secondary education and vocational training in the future?

THEORETICAL INTRODUCTION

1. As mentioned already in the famous 1993 World Bank report on the so called «East Asian economic miracle » the internationalization of the East Asian emerging economies has progressed in rather spectacular terms in 1980-1996.

However, the degree of global interdependence between a such rapid growth and the inflows/outflows of foreign investment have become a very controverted issue since the outbreak of the East Asian financial crisis of 1997-98 (see UNCTAD World Investment Report, Geneva, 1998).

2. In order to remedy some of the main causes of the crisis, structural corporate and financial reforms are being introduced in the most affected economies of East Asia. They are targeting the necessary reforms of the domestic conglomerates and other big scale enterprises.

Whether already widely or less opened to foreign direct investment (FDI) before the crisis, those economies are requested to review the role of FDI as a potentially important contributor to the ongoing restructuring process. In this approach, FDI is envisaged as a strong instrument of globalization of the local firms, leading to the possible diminution of corporate and financial vulnerability vis-a-vis fluctuating domestic and regional markets.

3. The scale and degree of internationalization of the conglomerates and other big firms have been widely studied before the crisis, particularly in the four Asian dragons and neighbour emerging economies (such as Indonesia, Malaysia or Thailand). The restructuring contribution of FDI is already being envisaged for a number of key firms in countries such as Korea and Thailand.

On the contrary, indepth knowledge of the East Asian SME sector has remained extremely scarce (except in Japan) until the crisis. This is also true for the limited number of internationalized SMEs in the East Asian emerging economies.

4. Therefore, even if SMEs represent the vast majority of East Asian existing firms and are responsible for the bulk of employment, the impact of the crisis on this category of firms has been addressed - neither politically nor economically and financially - at least until the last quarter of 1998.

It is being realized only very recently that local SMEs have been primarily responsible for the dramatic rise of unemployment: some SMEs went simply bankrupt, many others reduced their overall activity and downsized their labour force in the course of 1998, and numerous self-employed activities were either temporarily frozen or disappeared.

5. As already mentioned under section 3, the existing knowledge on the relationship between local SMEs and foreign investment (FDI in particular) in the East Asian emerging economies has been very limited until the crisis.



Even if the domestic and external market scene was primarily dominated by big scale indigeneous and foreign firms, it can be yet assumed that a segment of the existing SMEs were directly or indirectly internationalized, and via (if indirectly) various forms of foreign firm affiliations, until the outbreak of the crisis.

6. This paper intends to propose a distinction between the few internationalized SMEs and the vast majority of them, working exclusively on the domestic market and through pure domestic channels.

Focusing on the first category of SMEs, a few central questions can be addressed such as **(a)** Has foreign investment (FDI in particular) played some role to mitigate the impact of the crisis on East Asian SMEs? **(b)** Is it true that those local SMEs having a relationship with foreign affiliates (through subcontracting or other contractual agreements) have better survived the crisis than the pure domestic-oriented SMEs?

7. A stimulating but pure theoretical hypothesis could be that the more integrated the local SMEs were vis-a-vis foreign affiliates, the more resilient they might have been to the 1997-98 crisis, and therefore potentially to new market fluctuations in the future as well.

If such an hypothesis would be demonstrated, then various forms of foreign investment could be further promoted locally by both the private and public sectors in order to restructure/forward linkages between local SMEs and foreign firms.

SURVEY METHODOLOGY

1. Definition

According to UNCTAD sources for instance (UNCTAD Division on Investment and Technology), FDI-linked SMEs can be defined as those SMEs having linkages with foreign affiliates. The involved linkages can have various forms such as contracting or subcontracting (components, parts, intermediary products, etc ...).

It can go as far as including the limited number of local SMEs having foreign equity in one form or an other together with foreign partners.

2. Survey

This paper is based on brief SME surveys conducted between mid-January and mid-April 1999 in Korea, Malaysia and Thailand. There was almost no existing data on the subject before those brief surveys were initiated locally.

2.1. In Korea, a sample survey was conducted by Korea University with the help of the Korean Chamber of Commerce and Industry (KCCI). A questionnaire was sent to 300 SME members of KCCI. 33 SMEs have returned it, with most of them having answered all questions. Among the 33 responding SMEs, 16 have had a foreign affiliation of some kind (sub-contract, licensing, daughter company, etc...), and 17 SMEs did not have any kind of foreign affiliation.

2.2. In Malaysia, the sample survey has been derived from two sources. The first one relies on three national surveys carried in early and late 1998 and again in early 1999 by the Association of Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM). The second source is based on a few direct surveys at SME sites conducted in February 1999 and meant to verify some of the results derived from the three ACCCIM surveys mentioned above.

In the ACCCIM surveys, the response was quite satisfactory. In the first two 1998 surveys, 130 and 113 enterprises replied out of a total of 600 questionnaires delivered nationally. In the early 1999 survey, 293 have replied out of 800 questionnaires. In all three surveys, over two thirds of the respondents are SMEs defined as enterprises employing not more than 150 workers and having a maximum turnover of RM 25 million.

2.3. In Thailand, a brief survey was initially conducted with the help of a questionnaire sent to 300 SMEs by the Faculty of Economics (Chulalongkorn University, Bangkok), with the help of the Ministry of Finance. But this first approach failed.

Then, 20 SMEs in three distinct manufacturing sectors having a strong foreign market exposure (textile and garment electrical and electronic products, automobile parts) were directly surveyed at the SME production site in March 1999. Among the surveyed SMEs, 13% of them practise some forms of subcontracting with foreign affiliates, and even a smaller proportion has some minority or majority direct foreign equity participation.

3. Central Research Questions

Based on the results of the three country sample surveys, this paper tries to answer three central questions (see Part 2: Tentative Conclusions).

The three central questions are:

Q1: Have local SMEs with a relatively strong export orientation experienced a weaker decrease of production and sales than SMEs with an exclusive domestic orientation ?

Q2: Have local SMEs linked to foreign firms in various forms such as assistance and subcontracting linkages (except direct investment and ownership linkages) been more resilient to the crisis than the vast majority of local SMEs not linked to foreign firms ?

Q3: Have local SMEs linked to FDI and some ownership participation of foreign investors been particularly resilient to the crisis ?

PART 1: CURRENT STATE OF SME NATIONAL DATA

Local SMEs are expected to have been affected by the financial crisis, and the financial and corporate sector reforms in particular (at least in Korea and Thailand) through direct and indirect channels interplaying at the same time.



Direct channels refer to: (a) an overall slowdown of the economic activity, (b) a strong financial crunch induced by foreign exchange and financial turbulences, (c) a strong and transitional depreciation of the national currency.

Indirect channels refer to: (d) business relations with domestic conglomerates (especially the chaebols in the Korean case) and other local big scale firms, (e) business relations with foreign affiliates and companies established in the country (including equity participation or ownership relations in some local SME cases), and (f) favorable/neutral/or unfavorable government policy towards local SMEs.

This paper is essentially interested to assess the validity of one of the three indirect channels, which is mentioned above under (e).

KOREA

First, manufacturing SMEs have suffered far more from the crisis in 1998 and early 1999 than non manufacturing SMEs on the one hand, and than manufacturing/and non manufacturing big firms on the other hand. Compared to 11,589 SME bankruptcies in 1996 (7 only for big firms), the figure has sharply raised to 17,168 in 1997 (58 big firms) and to 22,828 in 1998 (39 big firms).

Second, manufacturing SMEs operating in light industries have been even more affected by the crisis, than those involved in heavy and chemical productions.

Third, the very substantial contraction of SME manufacturing production and the double multiplication of the SME bankruptcy ratio have not been accompanied by a strong contraction of SME exports, which has been even much slower than the overall export contraction of the whole economy. Therefore, it can be said that SMEs have reacted more flexibly to the crisis and to the transitory currency depreciation than big firms, as far export performance is concerned. As a result, the share of SMEs in Korea's total trade has been expanding at least marginally from 41,8 % in 1996 to 42,6% in 1998 (and possibly to 45,7 % in 1999 based on the first months of the year!).

Fourth, even though national production seems to recover gradually in the first months of 1999, its dynamics has not been restored sufficiently yet, to have any significant positive impact on the production of manufacturing SMEs.

MALAYSIA

The financial crisis and the specific protectionist measures taken henceforth (contrary to Korea and Thailand) have affected most enterprises. On the one hand, SMEs are no exception in the sense that they have badly felt the contraction of the domestic market, the shrink in credit available and the devaluation of the ringgit (at least until its fixed rate pegging to the US dollar since autumn 1998). On the other hand, there has been also some other factors at play such as overdependence on domestic market exclusively (for over two thirds of SMEs), strong price dependence on raw material and component imports (affected by a devaluated ringgit and then fixed peg), uneffectivity of a new 10 bank syndicated loan scheme

initiated by the government and supposed to assist SMEs facing credit shrunk and high interest rates.

Since late 1998, the expansionary budget implemented by the government has produced an overall positive impact on the economy. However, this is for the moment a short term result, and its stimulating downstream effect on local SMEs is still marginally felt, though business plans of SMEs tend to be less gloomy for 28,7% of them against 14% only in the course of 1998. Yet, 60% of all surveyed SMEs are still predicting worse business performance in early 1999, against 53% early 1998 and 81% by the end of the same year.

THAILAND

The last SME survey conducted by the Ministry of Industry covers the period from September 1996 to September 1997. 94,5% of manufacturing SMEs are fully Thai-owned, while 5.5.% are joint-ventures with foreign investors.

The crisis has been initially private-driven and much linked to the overall mismanagement of the big financial institutions. SMEs have been particularly affected later on in 1998, when the crisis peaked and extended also to the overall real sector. So far, there is no data on the impact of the crisis on this category of enterprises, which were yet responsible for about two thirds of the total manufacturing output in 1996.

This is of little surprise as the government has failed in the past to give SMEs a right place in its macro-economic and industrial policies. In addition, a campaign to help local SMEs has gained momentum only since the fourth quarter of 1998, and some tentative supportive measures have only been announced since early 1999. Various public and private financial institutions are supposed to take the lead in extending preferential loans of Bt 52 billions to existing and newly created SMEs in the course of 1999.

PART 2: ME SAMPLE SURVEYS AND RESEARCH RESULTS

The following sections try to answer the three central questions Q1, Q2 and Q3 presented in the survey methodology.

However, the answers can be only assimilated to tentative conclusions at least for two reasons.

First, available data dealing with the impacts of the financial crisis on the real economy is still extremely scarce, and even more rare when it comes to the direct and indirect effects on local SMEs. Second, the sample SME surveys conducted in the three countries studied were very limited in scope and also in duration (January-April 1999).

The following research results do invite for wider and more in depth investigations.



Q1: Have local SMEs with a relatively strong export orientation experienced a weaker decrease of production and sales than SMEs with an exclusive domestic orientation ?

The answer is positive in the three countries under study.

Empirical data derived from the sample surveys tends to show **(a)** that the strong depreciation of the national currency had initially improved the international competitiveness of some but not all SME products, and **(b)** that the expansion of exports combined or not with preferential credit facilities (if and when put in place by government) had a positive impact on their sales and had compensated the decline of local demand, at least to a certain extend.

In the Korean sample, a trend could be identified: the stronger the export-orientation of the SME was initially, the more positive development in sales was experienced in 1998. In a number of cases, it cushioned fully or even more the downturn of domestic demand during the same period. In that respect, local exporting SMEs were relatively more efficient than big firms in adapting to new economic environments (such as drastic exchange rate fluctuations) so rapidly induced by the severity of the crisis.

In the Thai sample, it is interesting to note that most SMEs affiliated and non affiliated to foreign firms in the electric and electronic industry are export oriented, and that both categories have experienced positive effects derived from the sharp favourable change in the exchange rate. But a distinction between the two categories has to be made in the textile and garment sector, where all non-foreign affiliated SMEs surveyed have been less resilient to the crisis than the affiliated ones.

In the more specific Malaysian macro-economic context, both the ratios of SMEs exclusively export-oriented, and of SMEs working for export and domestic markets, have declined from 7% to 4,6%, and from 29% to 20,4% respectively. Due to the crisis but also to the protectionist financial regulations decided against foreign investors in September 1998, there is inbetween early 1998 and early 1999 an 11% increase in the number of SMEs working for the domestic market only.

The relative export performance of local SMEs during the crisis is not well enough documented for establishing a strong correlation between the totality or a segment of the local exporting SMEs and their direct or indirect export channels. Those may be indirectly facilitated - at least in some cases - by the export channels of foreign transnational corporations (TNCs) and foreign trading houses.

Before the crisis, a number of limited empirical studies (conducted for example by the Geneva-based International Trade Centre UNCTAD/WTO) tend to show that most East Asian exporting SMEs relied primarily on direct export channels. This is particularly true of the most export performing SMEs in the region, such as the SMEs in Chinese Taipei for instance.

Q2: Have local SMEs linked to foreign firms in various forms such as assistance and subcontracting linkages (except direct investment and ownership linkages) been more resilient to the crisis than the vast majority of local SMEs not linked to foreign firms?

The answer is much less clear than under the previous question. There seems to be some rather positive but very indirect impact, which is not well documented and precisely measured in quantitative and qualitative terms (at least from a SME viewpoint). It must be noted here that the foreign affiliate viewpoint has not been surveyed in the sample.

The Korean sample survey shows that a foreign affiliation did not materialize so much in the resilience of SME business performance during the crisis, even though it may have provided a certain degree of psychological security to some foreign-affiliated SMEs but not to all of them (depending on other variables such as the sector or sub-sector of activity, much or less affected by declining demand domestically and regionally). For example, an increase of sales during the crisis was experienced by a relatively similar proportion of foreign affiliated SMEs and non-foreign affiliated ones.

In the Thai sample survey, 12,9% of the interviewed SMEs practise subcontracting with foreign affiliates. The number one type of support received from foreign affiliates has been a relatively guaranteed and continued access to export markets.

Q3: Have local SMEs linked to FDI and some foreign investors' ownership participation been particularly resilient to the crisis?

First, some distinctions have to be made between some East Asian economies fairly opened to FDI before the crisis (such as Malaysia and Thailand) and some economies which have traditionally relied much less on FDI (such as Korea).

Second, even in the economies of the first category, data has shown that FDI has concentrated in certain sectors and primarily in the big scale industry (in domestic big firms or in majority/wholly owned foreign enterprises). The number of local manufacturing SMEs linked to FDI is still very limited and no complete, systematic and up-dated data was available before the outbreak of the crisis.

Third, considering the perceived importance of foreign investment even more since the outbreak of the crisis, most locally surveyed SMEs welcome FDI and foreign ownership participation, on the one hand. But on the other hand, two factors go in the opposite direction: **(a)** due to the small size of their paid-in capital, most SME owners (especially the numerous family-based ones) are rather reluctant to provide foreign investors with the possibility of controlling the management of their firm; **(b)** they may accept to limit the foreign ownership participation to a manageable minimum (which may be revealed as unattractive to the foreign investor) or even resist the psychologically perceived 'selling out' of the SME to foreign interests.

Interestingly enough, most SME owners surveyed **in the Korean case** are primarily interested in FDI for one single reason: some transfer of advanced management skills. Supply of foreign exchange, transfer of advanced technology, linkage to foreign partners in international markets come much behind as second bests in their answers.



In the Malaysian survey, there is no clear correlation between SME export resilience and foreign firm affiliation: some SMEs fully affiliated to Japanese investors have improved their export performance due to the weak ringgit, but at the same time they have to digest a sharp cost increase in the imports of raw materials and components (therefore, they are trying to outsource imports not from the USA any more but from neighbour East Asian economies). Some other SMEs fully owned by US foreign investors - but working primarily for the domestic market - have faced such drastic cost rises in imports and such sales drop, that they have closed some of their local production units and are trying to restructure and disinvest somehow, looking not for sole ownership anymore but for some form of joint venture with local partners. On the contrary, some 100% Malaysian owned exporting SMEs (less than 4% of total SMEs) have experienced only positive impacts from the crisis, thanks to a weakened ringgit. They have been increasing production at full steam, including expanding factory size and recruitment of additional employees.

There is some form of SME resistance to increased FDI ownership, which is specific to Malaysia in addition to the arguments presented in the above answer to Q3. Pro-Bumiputera New Economic Policy affiliated SMEs tend to be more domestic market oriented and somehow protected from real market conditions, in comparison to local Chinese or Indian SMEs, which tend to be far more internationalized. The anti-foreign campaign led by the Prime Minister since the outbreak of the crisis may also have some impact in SME behaviours toward the supposed dangers of FDI.

In the Thai sample survey, the foreign affiliated SMEs (5,5% of the total SMEs in manufacturing) tend to survive the crisis better than the ones without such an affiliation. The more foreign equity participation is involved in a local SME, the more likely assistance has been already provided or is envisaged from the foreign partners (through access to export market, technical assistance, loans and capital injection, etc...).

(a) The surveyed foreign affiliated SMEs in textile and garment are almost 100% foreign owned and totally export oriented: these two characteristics may explain alone why they have been much more resilient than all the others (except one non-foreign-affiliated SME surveyed, but already much export oriented).

(b) In the electrical and electronic sector, only one SME surveyed having a rather high foreign equity participation (49%) has been particularly resilient, thanks not only to classical technology assistance for export market access, but also to even more capital injection and financial participation during the peak of the crisis. The other foreign affiliated SMEs surveyed have all experienced both positive and negative effects of the crisis, even though their foreign affiliation is different from one case to the other (one SME is a family Thai-Singaporean venture, one has a licensing agreement, one has a 10% foreign equity).

(c) In the automobile parts sector, only one surveyed SME, producing junctions of break wires for both export and domestic markets, has over 51% of foreign equity. This SME had to reduce output and employment due to a sharp decrease in sales and profit, but the foreign partner has been providing some export market and cheap loan assistance. The other surveyed SMEs are non-foreign affiliated: all of them have mostly experienced negative

impacts of the crisis, even for the majority of them being involved both on domestic and export markets.

TENTATIVE CONCLUSIONS

C.1.

Combining the results to Q1, Q2 and Q3, the country surveys tend to indicate that **(a)** especially the export orientation of local SMEs and **(b)** less the foreign affiliation of local SMEs had a strong impact in terms of SME business resilience to the crisis.

The more strongly linked to export markets local SMEs were before the crisis, the more resilient they have been so far, whereas local SMEs relying both on export and domestic markets have generally performed less well (but still better than those local SMEs working for the sole domestic market).

Considering the various types and degrees of foreign affiliation, SMEs having a high ratio of direct foreign equity participation (49 % and over) before the crisis tend to be the most resilient ones during the crisis, due to various forms of assistance from the foreign partner, including additional capital injection and/or preferential loans in some cases. However, this rule proves to be not true for all SMEs belonging to this category, not even for those wholly or almost wholly foreign owned.

C.2.

Local SMEs with no foreign participation welcome in principle some form of FDI-affiliation, but want generally to limit it to a minimum. Local SMEs with some foreign ownership do not want - and despite the current crisis - any higher foreign contribution into their firm.

In both situations, the fear of losing management control is very central, for tangible financial and immaterial reasons. This refers to the psychological and sociological profile of the vast majority of local SME entrepreneurs, who generally lead family-based SMEs and lack a proper long-term industrial, marketing and management strategy.

In addition, despite the short term negative effects of the crisis, the financial situation of most local SMEs has not yet reached a desperate bottom line. Most of them are struggling with various downsizing constraints (and are directly responsible for the rapid rise in unemployment) but not to an extent of closing down; a good number of them even sound rather confident about their medium-term perspectives in 1999-2001.

The number of bankruptcies in 1998 has more than doubled compared to the year 1996 (for example, in Thailand), but the direct and indirect real market fluctuations derived from the financial crisis may have primarily hit the most vulnerable domestic market-oriented SMEs.

C.3.

The small segment of total FDI inflows attracted by the local SME sector has



developed gradually during the 1980s and 1990s until the outbreak of the 1997-98 crisis. Though no precise data is available, it originated more from the Asian region (especially in terms of production delocalization from big and SME firms in Japan and some East Asian NIEs such as Korea and Chinese Taipei) than from Western Europe and Northern America.

Newly established and wholly foreign owned SMEs were created locally in a majority of such FDI cases. In other cases, FDI inflows have of course not targeted the most vulnerable and losing out SMEs (even before the crisis), but on the contrary the most promising ones, if they were psychologically and financially ready to welcome some foreign participation.

It may be concluded that any sound anti-crisis policy targeting the domestic-oriented SMEs mostly affected by the financial turbulence should know how to pick up the winners or the most resilient ones. Such SMEs should be encouraged to meet foreign affiliates and partners, who are ready to join their up-grading efforts in business, management and internationalization. The development of sustainable linkages between these SMEs and foreign partners would certainly contribute to their long-term development, which has been extremely neglected so far. Directly and indirectly, such sustainable linkages would also contribute to the overall corporate reform and real market recovery in the East Asian economies mostly affected by the recent crisis. The external and structural vulnerability of these economies could then be reduced overtime, at least in relative terms.

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**THE ASIAN WAY OF HIRING:
A CROSS-NATIONAL COMPARISON**

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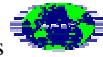
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THE ASIAN WAY OF HIRING: A CROSS-NATIONAL COMPARISON

ABSTRACT

The rapid growth of the Asian economy prior to 1997 was partially attributed to the thriving small and medium-size enterprises in many Asian countries. The key to learn their secrets of success resides in a better understanding of the “Asian way” of managing human resources, particularly how they recruit talented new employees. With this purpose in mind, we analyzed the data on hiring practices gathered from nine different countries using the Best Practices (BP) Survey instrument. These nine countries include two clusters. The Asian cluster consists of Chinese Taipei, PRC, Indonesia, Japan, and South Korea. The North American cluster is made of three nations: United States, Canada, and Mexico. Hiring practices in Australia were also examined, as this country is geographically close to Far East yet has an Anglo-dominant culture. In contrast with the common belief that the recruiting practices are relatively uniform across different nations in comparison with other human resource subareas, we found significant cross-national differences in terms of recruiting criteria and procedures. Among all the ten items used in BP survey, only two were found to be universally important as they were consistently rated high for both "is now" and "should be" situations in almost all the nine countries. The other eight items reflected a high degree of culture-driven divergence and, for these items, we found significant gaps between "is now" and "should be" situations. Our results of data analysis also suggest that the Asian cluster is not as homogeneous as we expected in terms of the hiring criteria actually used.

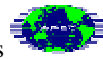


Selecting the most qualified persons to fill job vacancies seems to be a universal goal for both human resource and line managers around the world, as a mismatch between jobs and people in the first place could dramatically reduce the effectiveness of other HRM functions (Dunnette & Borman, 1979; Florkowski & Schuler, 1994; Mendenhall, 1987). However, few would expect the hiring practices used in different cultural environments to be the same. The success of some Asian economies has been partly attributed to the "Asian values," which emphasize thrift, hard working, family ties, and other time-honored virtues. Unfortunately, as researchers scramble to find explanations for the rapid expansion of the Asian economy before 1997 -- sometimes labeled as the "Asian miracle" -- little work has focused on the hiring practices commonly used in the Asia Pacific region, which could hold the key to understanding the secrets of success of Asian countries where small and mid-size enterprises have thrived for years.

Paucity of research in this subject area may have stemmed partially from a parochial orientation of conventional organization studies, which has been criticized as a major shortcoming of management research in North America (Boyacigilar & Nadler, 1991). Such a parochialism continued to drive the "mainstream" research even after HRM scholars gradually started to recognize the importance of strategic human resource management in the international context (Lengnick Hall & Lengnick Hall, 1988). Some researchers examined the human resource management issues from a

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As we look into the Asian way of hiring, two fundamental questions have caught our attention. First, do significant differences exist between Asian countries and the rest of the world in terms of commonly used hiring practices? If so, what are these differences? Although few would expect human resource managers around the world to recruit new employees in the same way, it is reasonable to assume that certain practices are more ubiquitously used by organizations of various nationalities. Apparently, the degree of "ubiquity" characterizing each selection criterion is a critical issue that cannot be adequately addressed on the basis of pure theoretical arguments. Rather, it requires an empirical examination in the prevalence of each selection criterion



used in both Asia and the Western world.

The second question is whether people agree that there are some universally desirable selection criteria that can be used for recruiting new employees in any continent. This question would differ little from the first one if all selection criteria practically used in all organizations were also viewed as highly desirable by all organizational members. We know, however, by observing real organizations that such a consensus rarely exists; no matter how judiciously the personnel selection criteria were set by the human resource department, some employees would complain about the inequity caused by the hiring practices. Even in the most democratic organizations, personnel selection criteria are rarely set through a consensus generation process; more likely, they are a result of the trials and errors over the years, bound by legal requirements, and subject to many other institutional constraints. As such, the degree of "universality," or the extent to which a selection criterion is universally desirable, ought to be treated as a separate issue from ubiquity.

In this paper, we attempt to address these two issues by comparing the hiring practices in nine countries. Five of them are located in Asia, including Chinese Taipei, PRC, Indonesia, Japan, and South Korea. Three countries in North America, USA, Canada, and Mexico, were selected, too. These two clusters of countries may reveal a sharp contrast in hiring practices between two continents across the Pacific Ocean. In addition, we selected Australia as a middle-ground representative, as this country is geographically close to Asia Pacific region but has been known for its Anglo-dominant culture.

The fact that both developed countries and developing ones were included in our sample promises an interesting comparison, as IHRM practices in these two categories of nations could differ dramatically from each other (Napier & Vu, 1998). In general, small and medium enterprises thrive in developing countries while large multinational corporations tend to dominate the economies of developed ones. Similarities and dissimilarities of selection criteria that are either actually used or strongly preferred by employees in these places could, in our opinions, reveal valuable information about the convergence or divergence of personnel selection practices in either Asia or North America. The empirical study was part of a large-scale, multinational research project conducted by a consortium of international scholars with the purpose of identifying the "best" international human resource management practices (Von Glinow, 1993).

QUESTIONNAIRE DESIGN AND DATA COLLECTION

Data were gathered by more than twenty scholars from nine countries, using the Best Practices (BP) survey as the measure instrument. The idea of conducting a multiple-year, multinational project on HRM practices was conceived in 1990 by Mary Ann Von Glinow and her colleagues in North America. As a result of one year's worth of collective effort, a standardized questionnaire was developed for the purpose of making cross-national comparisons. Since then, this research consortium has grown into a team of over thirty international scholars (Teagarden et al., 1995).



Although the wording "best" was used for the sake of highlighting our intention to benchmark HRM practices globally, we did not presume that the same HRM practices could be uniformly applied in all countries or cultural environments. With this caveat in mind, members of the BP project team developed the questionnaire with a combination of deductive and inductive methods. A literature review was first conducted to identify important hiring-related factors that have been recognized by HRM researchers in the past. Based on the results of the literature review, we designed the draft of the questionnaire and used it to survey a small group of managers who attended executive education programs at two different universities in the U.S. As we conducted the pilot survey, the participants were encouraged to either suggest items that they considered important but were missing in the original questionnaire or identify items that they considered redundant or noncritical.

In the meantime, we consulted with several experts in the area of cross-national HRM research in order to obtain their feedback on the relevance of individual items. After gathering all the feedback we could solicit, the consortium members then reevaluated the suitability of each item. Some items were added, deleted, or consolidated before the final version was readied for the official survey.

At the conclusion of this evolutionary process, it became clear to us that HRM practitioners usually care about both the technical and social calibers when they screen the job candidates. The evaluation of technical skills has two aspects. First, recruiters want to find out whether the job candidate *is able to* or *has the potential* to meet the technical requirements. This aspect was addressed by two items in our survey:

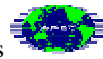
- A person's ability to perform the technical requirements of the job (Q1)
- A person's potential to do a good job, even if the person is not that good when they first start (Q8)

The second aspect concerns whether the technical skills are directly tested or inferred from the past job experience. Another two items address this issue:

- An employment test in which the person needs to demonstrate the skills (Q6)
- Proven work experience in a similar job (Q7)

Likewise, the social caliber of the job candidate may be assessed on the basis of either interpersonal or interorganizational skills. In the work place, a person who can mingle with other organizational members and fit into the organizational culture is usually preferred. Moreover, if the person is well connected to either internal or external constituencies, there would be a higher likelihood that he or she could easily assimilate with the task environment. This aspect is addressed by the following items:

- A person's ability to get along well with others already working here (Q3)
- How well the person will fit the company's values and ways of doing things (Q9)



-- Having the right connections (e.g., school, family, friends, region, government, etc.) (Q4)

Aside from the importance of various aspects of social caliber, another critical issue is how the employers actually *assess* a job candidate's social caliber. The assessment method could be used for screening the candidates and socializing insiders simultaneously (Sutton & Louis, 1987). We identified two major methods:

--A personal interview (Q2)

--Future co-workers' opinions about the person (Q10)

To be sure, these two methods may be used for assessing both technical and social skills. However, since technical skills can be reliably measured by many other means, in practice the major role played by these two factors is more likely social than technical (Guion, 1987).

Finally, most managers may hope that, once a job candidate is hired, he or she will stay with the organization long enough so that their investments on recruiting, training, and socializing this person may pay off. Although this factor is not directly related to either technical or social caliber, it could affect the total "yield" of a hire, which may be viewed as a special form of capital spending. Naturally, managers always care about whether the anticipated ROI during the life span of a piece of human asset could justify the amount of time and money invested up front. Thus, we added one more factor:

--The company's belief that the person will stay with the company (e.g., five years or longer) (Q5)

A five-point Likert scale, ranging from 1 (not at all) to 5 (to a very great extent) was used in grading the responses. One special feature of the BP survey is that respondents were asked to indicate the extent to which each one of these items affects the hiring decisions in their organizations in both "Is Now" and "Should Be" situations. Although we expected these two sets of responses to be correlated and both are subject to the influence of the national culture, we are convinced that the cultural impact on the "Is Now" condition is likely to be diluted by a large number of non-cultural factors, such as the past history of the organization, the industry structure, and the leadership style. By contrast, the "Should Be" condition is, theoretically, more susceptible to the impact of culture as it reflects organizational members' personal preferences. If we follow Hofstede's paradigm and define culture as "the collective programming of the mind which distinguishes the members of one human group from another" (Hofstede, 1980), it should not be surprising to find that people's preferences in this regard are heavily influenced by culture.

Although measuring organizational performance is not the main purpose of the BP project, we do believe that there is a positive relationship between the use of appropriate hiring practices and organizational effectiveness in general as perceived by



employees. For the purpose of measuring the perceived hiring effectiveness, we used three items:

- (a) The hiring practices help our company to have high-performing employees
- (b) The hiring practices help our company to have employees who are satisfied with their jobs
- (c) The hiring practices make a positive contribution to the overall effectiveness of the organization

These three items were also rated on a five-point Likert scale.

Results

Being aware of the potential systemic bias in the responses due to cultural differences, we decided not to directly compare the averaged item scores across nations. Instead, within each national/regional sample we merely identified three items with the highest ratings.

Comparison of the "Is Now" Conditions

Table 1 presents the means and standard deviations of the "Is Now" responses, with the three top-ranking items in bold face. The nine countries or regions covered in the data analysis include Australia (AUS), Canada (CAN), People's Republic of China (PRC), Indonesia (IND), Japan (JPN), South Korea (KOR), Mexico (MEX), Chinese Taipei (TWN), and the United States (USA). A quick glance at Table 1 reveals that two selection criteria stand out as the most commonly used ones in all settings. The first one is "a person's ability to perform the technical requirements of the job" (Q1) while the second one is "a personal interview" (Q2). The prevalence of Q1 should not be surprising as technical skills ought to be the ultimate yardstick of a person's qualification in a rational perspective. In fact, the more interesting finding is that Q1 was *not* among the top-three selection criteria actually used in Japan and Chinese Taipei. It probably reflects the predominance of non-technical criteria in these cultures, which will be discussed in greater detail later.

Insert Table 1 About Here

As an important personnel screening tool, job interview (Q2) was ranked among the top three factors in almost every country except PRC. Again, this fact indicates that few people would feel comfortable with making a job offer without seeing the candidate in person. Even in PRC, the relatively lower importance of Q2 may be due to practical difficulty rather than a deemphasis of personal acquaintance.

In the meantime, the other eight items seem to reflect significant cross-cultural differences, although a certain degree of clustering is also evident. For one thing, the

top three factors found in the people of Chinese Taipei and Japanese samples are identical. We think it is unlikely to be purely coincident. Rather, such a similarity may have reflected the cultural similarities, the intertwined histories in the past century, and close economic ties between these two countries. As a matter of fact, many industries in Chinese Taipei were started after World War II under the support of Japanese enterprises. Understandably, their human resource management systems were initially borrowed from Japan. The high importance of these three items (Q2, Q3, and Q8) also reflect the extra value placed on harmonious human relations by these two cultures.

Next to Q1 and Q2 in terms of prevalence of use is Q7, proven work experience in a similar job, which was ranked among top three by five countries. It is interesting to note that three of them are Anglo-culture countries (Australia, Canada, and the U.S.), although people in PRC also consider it very important.

Certain degrees of similarities were also found among other cultures, although the patterns of similarity are not very clear. For example, people in PRC, South Korea, and Indonesia seem to trust employment test (Q6) more than their counterparts in other nations do. Although the small sample size in most countries prevent us from confirming these similarities with full confidence, we do see potential effects of geographic proximity or cultural similarity on hiring practices in these countries or regions.

Comparison of the "Should Be" Conditions

Table 2 presents the means and standard deviations of "Should Be" ratings for the ten items in the nine countries. Overall, this table is similar to Table 1 only to the extent that Q1 and Q2 continue to be the most prevalent hiring criteria. The other eight items reflect varying patterns of similarities across different countries.

It is noteworthy that "a person's ability to perform the technical requirements of the job (Q1)" is ranked among top three "Should Be" conditions in *all* the nine nations, confirming the universal desirability of using technical skills as the selection criterion. As a "Should Be" condition, "a personal interview" (Q2) lost its top-three ranking status in Chinese Taipei and South Korea and continue to be out of the top-three category in PRC. Interestingly, all these three countries are located in East Asia. We should not infer from this finding that interpersonal relations are unimportant in these nations. Rather, it is more likely that managers in these countries have found other yardsticks to assess a person's non-technical characters, thereby making the use of interview less necessary.

Insert Table 2 About Here

Aside from Q1 and Q2, the eighth item, "a person's potential to do a good job" (Q8) is the third most prevalent "Should Be" factor in our multinational sample. It is



ranked as top three by four countries: PRC, Japan, South Korea, and Chinese Taipei. The "Asian flavor" is quite clear as all of them are located in Asia. In the meantime, since this item was ranked among top three only by respondents in Chinese Taipei and Japan for the "Is Now" condition, we can see a gap between ideal and reality in the other two countries; that is, this item is viewed as very important ideally but has not been treated as important in practice.

Other items are valued differently by countries in a way inconsistent with the "Is Now" conditions as well. For instance, a person's ability to get along well with others (Q3) is viewed as very important by South Korea, Chinese Taipei, and the U.S., but only in Chinese Taipei is it also considered one of the top three criteria in actually used hiring practices. Employment test (Q6) is among top-three criteria in PRC, Indonesia, and Mexico, but in our sample only PRC and Indonesia treat it as a top-three factor in practice. As mentioned earlier, "proven work experience" (Q7) was among the top-three criteria in five countries in light of "Is Now" condition, but it was not recognized as a top-three "Should Be" criterion in any country or region.

The ninth item (Q9), how well the person will fit the company's values and ways of doing things, was ranked among top three "Should Be" factors only by Australia and Canada, but neither country ranked it so high for "Is Now" situations.

It is also noteworthy that four items in the BP questionnaire were not ranked by any national subsample as top-three "Should Be" practices. These four items are: having the right connections (Q4), likelihood of staying in the company for the long haul (Q5), proven work experience in a similar job (Q7), and future coworkers' opinions about this person (Q10). All these factors are either relatively intangible or highly subjective. Understandably, even though they might affect the hiring decisions in practice, few people would suggest that they ought to be formally considered.

Comparison of Country Profiles

In order to make it easier to see the gap between "Is Now" and "Should Be" conditions, we also compiled a table that lists the top-three items on a nation-by-nation basis.

Insert Table 3 About Here

An interesting phenomenon that strikes us is, the "top three" profiles for Australia and Canada are identical. Apparently, this similarity can be attributed to the common cultural roots of these two nations as well as their historical ties with the British Commonwealth of Nations.

Table 3 also reflects the gap between reality and ideal in each nation. For instance, the actual hiring practices used in Japan seem to emphasize a person's potential and interpersonal skills, but the Japanese respondents did recognize the

importance of technical skills required by the job. That's why, although Q1 was not among their top-three "Is Now" factors, it was one of the top-three "Should Be" factors for recruiting. The commonality of Australian and Canadian "top-three" profiles also reflects a common gap between reality and ideal for these two nations. Specifically, proven work experience is an important selection criterion in these two nations in the "Is Now" situation. When it comes to the "Should Be" situation, however, a good fit with the company's values and ways of doing things becomes more crucial.

Likewise, in the case of Mexico, having the right personal connections is one of the top three hiring factors in practice, but the use of a more objective employment test is viewed as very desirable in a "Should Be" situation. A personal interview is a very crucial step in the actually used hiring procedure in Chinese Taipei, but people in Chinese Taipei respondents seem to believe that job-related technical skills ought to be a more important selection criterion.

Among other countries/regions, our Indonesian sample has shown a better match between reality and ideal -- the top three factors for the "Is Now" situation are also the top three for "Should Be" situation -- while the reality-ideal gaps for South Korea appear to be relatively large. One reason why these gaps deserve our attention is that they may point to the likely direction of change, or the trend, in a nation's prevalent hiring practices. For instance, although proven work experience is ranked by our U.S. respondents as one of the top three most important hiring factors, its position was replaced by the ability to get along with others already working here in the "Should Be" part. We should not be surprised if American human resource managers start to deemphasize the past work experience but give heavier weight to interpersonal skills in the future.

Effects of Recruiting Practices on Organizational Effectiveness

The last but not the least important question we try to answer is: Do hiring practices really matter? In other words, are those personnel selection criteria examined by us tied to the overall organizational performance? To address this issue, we did a multiple regression analysis with the three aforementioned measures of perceived effectiveness as the dependent variables. The results are shown in Table 4.

Insert Table 4 About Here

Although most factors are not statistically significant due to the inherent collinearity problem of using the five-point Likert scales, the F and R^2 values listed at the bottom of the table, reflecting the explained variation in the dependent variables, may still reveal useful information about the relative importance of hiring practices in affecting organizational effectiveness in each country. Overall, all samples yield significant F values for the three measures of hiring effectiveness.

In the meantime, hiring practices account for organizational effectiveness in



these nations by varying degrees. Since the sample sizes vary wildly across nations and smaller samples tend to yield larger R^2 values when everything else is equal, we have to use the F value and R^2 together to evaluate the power of these regression models. In light of these two indicators, Mexico, South Korea, and Chinese Taipei seem to demonstrate the highest impacts of hiring practices; that is, the relationship between hiring practices and perceived organizational effectiveness is clearest in these nations. Interestingly, Chinese Taipei and South Korea are two of the "four little tigers" in Asia while Mexico may be the new little tiger in North America. Although we do not have data gathered from two other little "tigers" in Asia (Hong Kong and Singapore), it seems likely that the best human resource management practices model would work best in those fast-growing, developing economies.

DISCUSSION

The empirical results of analyses generated from our multinational data set are more complicated than we expected and do not lend themselves to any coherent theoretical interpretations. As hypothesized at the beginning of this paper, if culture has any impact on recruiting practices, its impact is more likely manifested in the "Should Be" rather than "Is Now" conditions. Our empirical findings, however, do not seem to support this hypothesis. In fact, we suspect that the striking similarities among the U.S., Australia, and Canada in terms of "Is Now" conditions could be attributed to their common Anglo roots. Interestingly, the profile of Mexico differs from that of the U.S. or Canada despite the fact that it is also located in North America probably owing to its Hispanic cultural root.

Among Asian nations, the striking similarity between Japan and Chinese Taipei in terms of "Is Now" conditions may reflect the close historical and cultural ties between these two nations in the past one hundred years. Even when we compare the "Should Be" conditions, the similarities among Chinese Taipei, Japan, and South Korea are still impressive. However, the situation at the People's Republic of China seems to be one of a kind; its profile appears to be positioned somewhere between Asia and North America -- which may be attributed to a combination of fifty years of implementation of socialism and twenty years of economic reforms (Cyr & Frost, 1991; Holton, 1985; Warner, 1993; Zhu & Dowling, 1994).

Although little research in the past has directly focused on the cross-national difference of hiring practices, we could still find some partial explanations by examining the evolutionary process of human resource management practices in different countries. For instance, Shelton (1995) reviewed the HRM system in Australia and detected a perceived need to "move from a centralized industrial relations system to a decentralized system focused around enterprise-based employment agreements" (p. 52), which relies heavily on a massive increase in the extent and frequency of joint consultation between employers and employees at the enterprise level. If that is indeed the new trend in the Australian HRM system, we can easily understand why our Australian respondents have ranked the good fit with the corporate values and ways of doing things so high. As a matter of fact, in recent years federal legislation has been introduced to shift the focus of industrial relations to the enterprise level,

indicating that the Australian system has indeed moved toward decentralization (Gough, 1996).

We suspect that a similar transition is also going on in Canada. Moore and his colleagues conducted some surveys with human resource departments in Canada and noticed that the role of HR department has changed or grown since early 1990s. Such a development is often attributed to the HR department's taking on greater responsibilities and handling these in a more professional manner (Moore & Jennings, 1995; Moore & Robinson, 1989). As such, we may expect to see an increasing desire to recruit new employees whose personal value systems are compatible with the company's culture.

The heavy emphasis placed by Japanese companies on a person's potential and his/her ability to get along with others may be traced to their renowned life-time employment system. As noted by some researchers (e.g., Pucik, 1984), large Japanese organizations usually conduct recruitment and selection on a yearly basis and tend to hire a cohort of fresh school graduates annually in April rather than conduct recruitment throughout the year as vacancies arise. This phenomenon reflects the importance of *wa* (or harmonious human relations) in Japan and is perfectly consistent with our findings, since people from the same schools would find it easier to develop a smooth interpersonal relationship within a team due to their common educational backgrounds.

The relatively low weight given to job-related skills as a selection criterion that we observed should not be surprising, either, in light of findings of the past research on Japanese management. Morishima (1995) points out that important selection criteria used by Japanese firms revolve around trainability or ability to learn rather than the ability to execute tasks and duties. In a survey conducted by Fujiwara (1993), even for white-collar technical employees, fewer than 10% of the firms reported primarily emphasizing "technical expertise" for selection, with even smaller percentages for blue-collar workers and white-collar administrative employees. This might be the reason why Q1 was not ranked among the top three selection criteria by our Japanese respondents. Nonetheless, the technical-skill item was indeed ranked as a top-three criterion for the "Should Be" situation, probably because the deep recession experienced by the Japanese industry in the past ten years has urged Japanese managers to reevaluate their past hiring practices, thereby recognizing the importance of job skills as a factor in hiring decisions.

We also see some similarity between Korean and Japanese hiring systems. Although no lifetime employment system has been adopted by any large firms in South Korea, organizations in both nations seem to deemphasize proven work experience and prefer hiring new graduates out of schools. A study conducted by Koch, Nam, and Steers (1995) clearly shows that in Korea most applicants for white-collar jobs must pass company-sponsored entrance examinations that typically include English-language proficiency in addition to knowledge both in a major field and in general abilities or common sense. This is consistent with our finding that employment tests are considered crucial in the "Is Now" situation in South Korea. Koch et al. (1995) also found that employee referral is widely used for recruiting blue-collar employees in



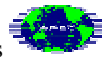
South Korea. This practice may explain why a personal interview has been found to be crucial in our Korean respondents' "Is Now" conditions -- oftentimes it is the only screening tool used by the employers in filling blue-collar positions.

Our findings with the Chinese Taipei sample are in general consistent with what has been reported by Farh (1995). However, Farh also points out that the hiring practices used in the public sector are dramatically different from the counterparts in the private sector. Since our sample of Chinese Taipei is primarily made of employees in the private sector, the findings are naturally more similar to what has been reported by the past studies in this sector. For instance, Huang (1992) has found that job interview is a very crucial part of the personnel selection process. We found that a personal interview is indeed among the top three "Is Now" hiring criteria in the sample of Chinese Taipei.

In spite of the striking similarities that we have found between Japan and Chinese Taipei in hiring practices, we can still see a couple of crucial differences between these two systems. First, because of a shortage of skilled technical employees, many employers in Chinese Taipei obtain experienced personnel by hiring them away from competitors with more attractive offers (Farh, 1995). This phenomenon is common not only in Chinese Taipei but also in all developing countries, particularly as employees consider the companies they work for as "training grounds" (Napier & Vu, 1998). By contrast, in Japan it is strictly a taboo for a large company to steal talented employees away from its competitors.

Second, although familism plays a central role in staffing for both the firms of Chinese Taipei and Japan, owners of many companies in Chinese Taipei tend to plug their relatives into important corporate executive positions while Japanese firms are less likely to do so (cf. Cheng, 1991; Farh, 1995; Peng, 1989). This phenomenon was not mirrored by our empirical findings about Chinese Taipei as it applies only to a few privileged organizational members. In a sense, the wording "familism" means different things in Japan and Chinese Taipei. In Chinese Taipei it implies primarily appointments of relatives and family members for crucial positions while in Japan it is largely referred to a "whole life concern" displayed by employers for their employees.

Finally, we found that the currently prevalent hiring practices in the U.S. seem to consider the job interview performance, technical skills, and proven work experience as the most important selection criteria. This is hardly surprising in light of the past research on American HRM systems (Jennings & Moore, 1995). Nonetheless, in our U.S. sample, "the ability to get along with others already working here" replaces "proven work experience" as one of the top-three hiring factors, probably reflecting a trend toward deemphasizing the past work experience. Indeed, a recent article in the *Fortune* magazine clearly points out that a person's past work experience is no longer highly valued in the U.S. industry as in the past, while a person's potential to become a competent manager in the future has become an increasingly important selection criterion (Munk, 1999).



CONCLUSION

Any conclusion made at this juncture should be viewed as tentative. The BP project group is still in the process of collecting more data from more countries. We are convinced that the validity and reliability of our results will continually improve as we accumulate more data on this subject. In the meantime, we are afraid that in the field of international human resource management there is probably no such thing as a final conclusion anyway. As a former CEO of Apple Computer, John Sculley, once said: "In today's global economy, the only constant is change." It is plausible that the hiring practices in different nations are also undergoing major changes due to the globalization of modern industries. In spite of the lack of evidence supporting a coherent pattern of hiring practices that may be dubbed the "Asian way" of hiring, the trend toward convergence seems to be irresistible. This trend of convergence seems to be well in shape in light of the "Should Be" portion of our data. We also foresee an accelerated pace of global convergence in recruiting practices as a result of the advancement of contemporary information technology (e.g., Internet).

While the recruiting practices used in different countries are inching toward global convergence, we expect national cultures to continue affecting the hiring practices used in various countries (Yuen & Kee, 1993). Inasmuch as national cultures remain different, cross-national differences in HRM practices will continue to exist. As such, human resource managers still need to be culturally sensitive when devising the recruitment systems in various cultural environments. After all, the "best international human resource management practices" ought to be the ones *best* adapted to cultural and national differences.



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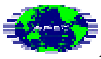


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Table 1 A Multinational Comparison of "Is Now" Conditions on Hiring Practices

	AUS	CAN	PRC	IND	JPN	KOR	MEX	TWN	USA
Q1	4.10* (.73)	4.08 (.68)	3.76 (.82)	3.58 (.90)	3.01 (.97)	3.22 (.94)	3.39 (1.02)	3.53 (.86)	3.98 (.83)
Q2	4.22 (.76)	4.18 (.72)	3.27 (.83)	3.55 (.89)	3.62 (.91)	3.31 (.89)	3.77 (1.06)	3.55 (.78)	4.17 (.85)
Q3	3.47 (.97)	3.44 (.90)	3.34 (.78)	3.13 (.87)	3.13 (.88)	3.18 (.95)	3.03 (1.07)	3.50 (.84)	3.45 (1.09)
Q4	1.74 (1.01)	2.06 (.96)	3.16 (1.00)	2.69 (1.22)	2.57 (1.09)	2.50 (1.03)	3.26 (1.21)	3.19 (.98)	2.66 (1.29)
Q5	2.73 (1.07)	3.06 (1.06)	3.25 (.91)	2.95 (1.04)	2.87 (1.05)	2.98 (1.02)	2.79 (1.24)	3.48 (.89)	2.76 (1.05)
Q6	2.31 (1.16)	2.34 (1.24)	3.54 (.81)	3.27 (1.09)	2.91 (1.05)	3.34 (.93)	3.02 (1.24)	3.49 (.80)	1.91 (1.01)
Q7	3.80 (.87)	3.82 (.83)	3.56 (.79)	3.05 (.98)	2.59 (1.10)	2.75 (1.01)	3.11 (1.17)	3.47 (.82)	3.68 (.93)
Q8	3.09 (.98)	3.10 (1.01)	3.35 (.87)	3.08 (.73)	3.14 (.94)	2.94 (.99)	3.15 (1.04)	3.71 (.81)	2.97 (.93)
Q9	3.61 (.96)	3.58 (.94)	3.31 (.85)	3.14 (.86)	2.94 (.89)	3.11 (.97)	3.23 (1.07)	3.39 (.83)	3.44 (1.11)
Q10	1.87 (.99)	1.94 (.98)	2.82 (.93)	2.46 (1.09)	2.12 (1.04)	2.22 (.98)	2.32 (1.18)	2.94 (.98)	2.42 (1.18)
N	436	124	521	237	502	234	479	237	143

* Standard errors are in parentheses.

**Table 2 A Multinational Comparison of "Should Be" Conditions on Hiring Practices**

	AUS	CAN	PRC	IND	JPN	KOR	MEX	TWN	USA
Q1	4.19* (.72)	4.31 (.64)	4.36 (.68)	4.16 (.66)	3.77 (.94)	4.16 (.69)	4.57 (.65)	4.21 (.68)	4.40 (.62)
Q2	3.99 (.85)	4.10 (.81)	3.56 (.85)	3.93 (.70)	4.00 (.77)	3.88 (.74)	4.30 (.88)	3.91 (.67)	4.19 (.78)
Q3	3.71 (.89)	3.94 (.76)	3.71 (.80)	3.82 (.77)	3.57 (.84)	4.12 (.75)	3.71 (1.20)	4.13 (.64)	4.14 (.71)
Q4	1.31 (.64)	1.41 (.61)	2.96 (1.20)	1.88 (1.06)	2.54 (1.15)	1.82 (1.05)	3.31 (1.32)	3.33 (1.01)	1.80 (.91)
Q5	2.72 (1.12)	3.10 (1.12)	3.58 (.91)	3.67 (.97)	3.27 (1.09)	3.99 (.93)	3.73 (1.20)	4.02 (.75)	2.93 (1.05)
Q6	3.25 (1.06)	3.03 (1.19)	3.96 (.72)	4.04 (.75)	3.11 (.93)	3.55 (.92)	4.42 (.74)	4.04 (.67)	2.80 (1.28)
Q7	3.82 (.87)	3.93 (1.00)	3.91 (.84)	3.50 (1.09)	3.00 (1.10)	3.31 (1.00)	4.23 (.89)	3.88 (.73)	4.01 (.80)
Q8	3.60 (.90)	3.58 (.96)	3.92 (.78)	3.82 (.70)	3.80 (.86)	4.12 (.75)	4.18 (.78)	4.31 (.58)	3.67 (.87)
Q9	3.99 (.84)	4.10 (.76)	3.76 (.81)	3.89 (.79)	3.20 (.94)	4.09 (.78)	4.23 (.86)	4.00 (.70)	4.10 (.82)
Q10	2.54 (1.11)	2.71 (1.14)	3.11 (1.01)	2.64 (1.16)	2.60 (1.09)	3.16 (.99)	3.18 (1.29)	3.50 (.91)	3.38 (1.02)
N	435	124	483	233	500	224	471	236	142

* Standard errors are in parentheses.

Table 3 Three Top-Ranking "Is Now" and "Should Be" Factors in Each Country/Region (In Order of Importance)

Nation/Region	"Is Now" Conditions	"Should Be" Conditions
Australia	(A) A personal interview (B) A person's ability to perform the technical requirements of the job (C) Proven work experience in a similar job	(A) A person's ability to perform the technical requirements of the job (B) A personal interview (C) How well the person will fit the company's values and ways of doing things
Canada	(A) A personal interview (B) A person's ability to perform the technical requirements of the job (C) Proven work experience in a similar job	(A) A person's ability to perform the technical requirements of the job (B) A personal interview (C) How well the person will fit the company's values and ways of doing things
PRC	(A) A person's ability to perform the technical requirements of the job (B) Proven work experience in a similar job (C) An employment test in which the skills	(A) A person's ability to perform the technical requirements of the job (B) An employment test in which the person needs to demonstrate the skills (C) A person's potential to do a good job, even if the person is not that good when they first start
Indonesia	(A) A person's ability to perform the technical requirements of the job (B) A personal interview (C) An employment test in which the person needs to demonstrate the skills	(A) A person's ability to perform the technical requirements of the job (B) An employment test in which the person needs to demonstrate the skills (C) A personal interview
Japan	(A) A personal interview (B) A person's potential to do a good job, even if the person is not that good when they first start (C) A person's ability to get along well with others already working here	(A) A personal interview (B) A person's potential to do a good job, even if the person is not that good when they first start (C) A person's ability to perform the technical requirements of the job

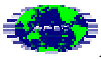


Table 3 Three Top-Ranking "Is Now" and "Should Be" Factors in Each Country/Region (In Order of Importance)
(*Continue*)

Nation/Region	"Is Now" Conditions	"Should Be" Conditions
Korea	(A) An employment test in which the person needs to demonstrate the skills (B) A personal interview (C) A person's ability to perform the technical requirements of the job	(A) A person's ability to perform the technical requirements of the job (B) A person's ability to get along well with others already working here (C) A person's potential to do a good job, even if the person is not that good when they first start
Mexico	(A) A personal interview (B) A person's ability to perform the technical requirements of the job (C) Having the right connections (e.g., school, family, friends, region, government, etc.)	(A) A person's ability to perform the technical requirements of the job (B) An employment test in which the person needs to demonstrate the skills (C) A personal interview
Chinese Taipei good	(A) A person's potential to do a good job, even if the person is not that good when they first start (B) A personal interview (C) A person's ability to get along well with others already working here	(A) A person's potential to do a good job, even if the person is not that good when they first start (B) A person's ability to perform the technical requirements of the job (C) A person's ability to get along well with others already working here
USA	(A) A personal interview (B) A person's ability to perform the the technical requirements of job (C) Proven work experience in a similar job	(A) A person's ability to perform the technical requirements of job (B) A personal interview (C) A person's ability to get along well with others already working here

TABLE 4 Relationships Between Hiring Practices and Effectiveness Measure

(A) Dependent Variable: Hiring practices help recruit high performing employees

	<u>USA</u>	<u>CAN</u>	<u>PRC</u>	<u>IND</u>	<u>JPN</u>	<u>KOR</u>	<u>MEX</u>	<u>TWN</u>	<u>USA</u>
Q1	.132**	.199*	.227***	.195**	.228***	.176**	.243***	.071	.393***
Q2	-.055	-.061	.005	.174**	.121**	.009	.023	.069	.035
Q3	.124*	.156	.010	.107	.117*	.118	.147***	.049	.116
Q4	-.269***	-.296***	-.072	.013	.025	-.081	-.081*	-.063	-.126
Q5	-.121**	-.020	.075	.145*	.087*	.164**	.053	.151*	.098
Q6	.164***	.273***	.163**	.218**	.094*	.230***	.209***	.139*	-.043
Q7	.089	.067	.102*	-.089	-.086*	.098*	.134**	.149*	.005
Q8	.101*	.024	.052	.127	.089	.003	.035	.018	.035
Q9	.165***	.177*	-.010	-.043	.019	.247***	.095*	.035	.141
Q10	.016	.165*	.081	-.011	.132**	.042	.023	.282***	.103
F	13.973***	6.160***	14.849***	10.909***	15.094***	23.449***	26.510***	14.678***	8.522***
R ²	.251	.355	.249	.343	.241	.517	.379	.409	.396
N	428	122	458	219	486	229	444	222	140

* p < .05
 ** p < .01
 *** p < .001

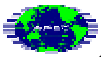


TABLE 4 Relationships Between Hiring Practices and Effectiveness Measures
(*Continue*)

(B) Dependent Variable: Hiring practices help improve job satisfaction

	<u>AUS</u>	<u>CAN</u>	<u>PRC</u>	<u>IND</u>	<u>JPN</u>	<u>KOR</u>	<u>MEX</u>	<u>WNTWN</u>	<u>USA</u>
Q1	.083	.164*	.134*	.189*	.226***	.082	.172***	.041	.221**
Q2	-.031	-.041	-.033	.116	.065	.050	-.075	.081	-.111
Q3	.132**	.175*	.071	.053	.099*	.066	.092*	.009	.217*
Q4	-.301***	-.213**	-.025	.024	-.019	-.055	-.069	-.056	-.221**
Q5	-.034	.065	.113*	.129*	.095*	.176**	.140***	.209**	.040
Q6	.112**	.158*	.123*	.069	.068	.197***	.200***	.199**	.054
Q7	.062	.114	.079	-.066	-.054	.115*	.100*	.048	.038
Q8	.144**	-.004	.015	.191**	.125*	.067	.088	.003	.113
Q9	.101*	.327***	.125*	.047	.010	.204**	.024	.048	.091
Q10	.091*	.109	.014	-.048	.150***	.077	.126**	.239***	.150*
F	13.206***	7.229***	10.488***	6.350***	13.048***	15.783***	18.046***	12.098***	6.438***
R ²	.240	.392	.191	.233	.216	.419	.294	.363	.331
N	428	122	453	219	485	229	444	222	140

* p < .05
 ** p < .01
 *** p < .001

TABLE 4 Relationships Between Hiring Practices and Effectiveness Measures
(*Continue*)

(C) Dependent Variable: Hiring practices help improve overall organizational effectiveness

	<u>AUS</u>	<u>CAN</u>	<u>PRC</u>	<u>IND</u>	<u>JPN</u>	<u>KOR</u>	<u>MEX</u>	<u>TWN</u>	<u>USA</u>
Q1	.054	.060	.215***	.223**	.201***	.141*	.256***	.101	.251**
Q2	-.022	.054	.028	.185**	.065	.039	-.039	.059	.040
Q3	.127**	.182*	.045	.044	.160***	.175*	.104**	.102	.122
Q4	-.288***	-.303***	-.088	.075	.003	-.013	-.034	-.004	-.277***
Q5	-.079	.010	.090	.129*	.072	.107	.018	.069	.042
Q6	.068	.248**	.077	.086	.114**	.170**	.180***	.194**	.012
Q7	.049	.127	.092	.059	-.064	.082	.124**	.124*	-.039
Q8	.160***	.023	.037	.170*	.122*	.059	.098*	.046	.054
Q9	.141**	.239**	.009	-.119	.018	.218**	.064	-.003	.216**
Q10	.113*	.144	.125*	-.077	.104*	-.021	.121**	.264***	.165*
F	13.370***	7.371***	13.018***	7.142***	14.406***	15.691***	24.554***	14.907***	9.075***
R ²	.242	.397	.224	.254	.233	.417	.362	.413	.411
N	428	122	460	220	485	229	443	222	140

* p < .05
 ** p < .01
 *** p < .001

**SCALE OF OPERATIONS, HUMAN RESOURCE SYSTEMS
AND FIRM PERFORMANCE IN EAST AND SOUTHEAST ASIA**

John J. Lawler

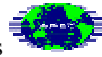
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SCALE OF OPERATIONS, HUMAN RESOURCE SYSTEMS AND FIRM PERFORMANCE IN EAST AND SOUTHEAST ASIA

ABSTRACT

Small and medium-sized firms are attracting considerable attention in East and Southeast Asia as they seem to be quite flexible and adaptive in seemingly ever more turbulent environments. The 1997 Asian financial crisis seemed to affect in particular countries characterized by larger scale firms. Downsizing and restructuring is now underway in companies in many parts of Asia. Another mechanism by which firms might achieve greater flexibility is through the introduction of high performance work systems (HPWSs). This study assesses the impact of HPWSs on firm financial performance, examining in particular if smaller scale operations might be an alternative to HPWSs. Data used were collected in Thailand, Chinese Taipei, and Korea. Results suggest HPWSs enhance firm performance regardless of firm size.

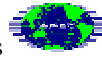


The rapid economic growth that had been enjoyed throughout much of eastern Asian for twenty years or more was seen by many to be sustainable for years to come. But 1997 brought economic crisis from Korea to Indonesia. Those who questioned the long-term viability of the “Asian miracle” (Krugman, 1994) seemed justified. What had been lauded as a fundamental cultural strength—a complex network of social relationships often rooted in Confucian values—was ruefully dismissed, at least in the West, as “crony capitalism.” Although the financial crisis was widespread, there were pockets of resistance—economies that experienced reduced growth but continued to prosper. Chinese Taipei and Singapore are two places that certainly fall into this category.

There are many reasons forwarded to explain the resistance of these two economies to regional problems. Neither country suffered from current account deficits associated with massive debt elsewhere in the region. The huge cash reserves of Chinese Taipei, for example, made it virtually immune from the speculative maneuvers of foreign exchange traders that undermined the currencies of Thailand, Korea, Malaysia, and Indonesia. Both Singapore and Chinese Taipei have governments that pursue disciplined economic policies and are places where the “rule of law” in business matters has strong institutional support.

One of the most significant differences, however, is to be found in the nature of business organization in Chinese Taipei and Singapore versus the countries that were hardest hit by the financial crisis. Singapore has promoted investment in cutting-edge, high-technology industries. Chinese Taipei is particularly noted for its small and medium-sized firms, both in the high-technology sector and in more traditional industries. One advantage of being small is that such organizations can be highly flexible and thus much more responsive to rapidly shifting and unpredictable economic conditions. The dominant indigenous businesses of Korea, Thailand, and Indonesia—the countries most adversely affected by the 1997 crisis—are quite often fairly large-scale companies, often with interests in multiple industries. Examples include the Korea’s *chaebols*, companies such as Siam Cement and the CP Group in Thailand, and the Lippo Group in Indonesia. Industrial restructuring is underway in much of the region, perhaps most notably in Korea, where the government pressing for divestitures and downsizing in many of the countries top-heavy *chaebols* (Ungson, Steers, and Park, 1997). That smaller scale businesses might enhance the Asian competitiveness in the same way as “downsizing” promoted recovery of the American economy in the 1980s is an intriguing if as of yet unresolved issue.

If Asian firms are going to move increasingly in the direction of smaller-scale operations, then we need to consider the human resource management implications of such changes. The purpose of this study is to examine the impact of a firm’s human resource (HR) system on organizational performance, with particular attention paid to the interaction of scale of operations and HR system. Data are drawn from companies in Thailand, Korea, and Chinese Taipei. We focus specifically on the impact of high performance work systems (HPWSs), which have proven to be quite effective in



Western economies and, like smaller-scale operations, can serve to enhance organizational flexibility. We address the following questions:

? To what extent are HPWSs transferable to East and Southeast Asian economies?

? If workable in East and Southeast Asia, do HPWSs have different effects on firm performance in small and medium-sized versus large firms? That is, if small and medium-sized firms are the wave of the future, are HPWSs as important to the success of these firms as might be the case in large firms?

? Are similarities or differences in the impact of HPWSs on firm performance different in the case of indigenous firms different than in the case of firms in general (i.e., both foreign-owned and indigenous firms)?

HUMAN RESOURCE SYSTEMS IN A GLOBALIZED ECONOMY

Human resource systems in East and Southeast Asian region have tended to be fairly hierarchical and non-participative. Collectivism as a dominant cultural value has often promoted a tendency toward conformity on the part of workers and reluctance to take initiative to solve problems and move the firm in new directions. Such systems are well suited to settings in which firms strive to be low-cost producers of well-established products, where efficiency is a more significant consideration than flexibility. And in the world market of the 1970s and 1980s that supported Asian economic expansion, this style of management provided an important source of competitive advantage for the export-oriented development strategies common throughout the region. But global market forces may now render the traditional Asian HR system obsolete, at least in many economic sectors. Though transition to flexible systems that empower workers, often at the lowest level of the organization, is culturally problematic, this approach may well be necessary to assure competitiveness in a fast changing global marketplace.

Globalization, Dynamic Environments, and High-Performance Work Systems

The literature on HPWSs is indeed extensive and our purpose here to motivate an understanding of its relevance to the East and Southeast Asian context rather than explore this literature in great depth. Osterman (1994) has explored this topic as thoroughly as any writer in the field. He contrasts the traditional employment system, with considerable emphasis on centralized control, numerous rules, narrowly defined employee skills, limited employee involvement in decision making, and low-levels of employee commitment to the firm, to “transformational” systems, with team-based production, employee empowerment, relatively few rules, broadly defined skill, high-commitment to the organization, and extensive and on-going training.

There are probably many factors at work that make the time ripe for HPWSs, but we will mention only a few of the leading contenders. These are rooted largely in the environments in which firms must operate and all lead to more dynamic and unpredictable environmental textures. First, and perhaps of greatest significance for this paper, would be the emergence of *highly integrated global markets* on both factor and



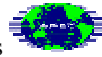
product sides. Globalization has clearly enhanced competitiveness, as firms that once enjoyed large and stable market shares in home markets must compete internationally to generate high returns; even if they do not leave their traditional markets, new competitors from just about anywhere else in the world may enter these markets.¹ The implication here is that higher-level managers may often lack the information necessary to exert top-down control in anything approaching an optimal manner. Rapid response is a key element in organization success, and this pushes the effective locus of decision making to lower levels in the organization. HPWSs become a way of effectively implementing decentralization of coordination and control.

Another factor promoting enhanced competitiveness internationally is a general trend toward *deregulation*. Excessive government intervention in the regulation of business activities is seen as anti-competitive and having a deleterious impact on consumer welfare. Closely related in many countries, including several of the eastern Asian countries considered here, is the process of privatizing state-owned enterprises. Both forces lead to greater market competition and favor firm adoption of HPWSs for many of the same reasons as globalization.

Finally, *rapid technological change* means that a large number of industries face much shorter operating cycles for products and production techniques. Staying ahead technological is now much more critical to success. This may involve sophisticated research and development activities by the firm, but even it does not, firms must continually upgrade production capabilities, acquire new technical information, and transfer in new technologies. Again, greater reliance on lower-level employees in accomplishing these requirements favor HPWS implementation.

Much of the initial research on linkages between HRM practices and organizational performance focuses on the impact of individual practices on various organizational outcomes (Lawler, Anderson, and Buckles, 1995). This piecemeal approach has been increasingly supplanted by a more holistic approach as researchers have examined the joint effects of complexes of HRM practices that collectively define a firm's HR strategy or system. Although the conceptual literature on HR strategy dates back to mid-1980s (Dyer, 1985; Fombrum, Tichy, and Devanna, 1984), it has only been in the past several years that there has been a proliferation of empirical studies of the effectiveness of HR systems.

There is division among authors as to the viability of *contingency*, *universalistic*, and *configurational* perspectives in analyzing the impact of HR systems on firm performance (Delery & Doty, 1996). The universalistic perspective takes the position that a set of "best practices" can be identified that is equally applicable regardless of organizational setting. This research can be traced to conceptual work by authors such as Pfeffer (1994), who maintain that certain employment practices, such as internal career ladders, extensive training, worker discretion, extensive training, generally contribute to high levels of organizational performance. The contingency perspective holds that the effectiveness of employment practices is moderated by external factors, most usually the organization's business strategy. For example, human relations training might be more effective under what Porter (1980) terms a differentiator, as



opposed to a cost-leadership, strategy. The differentiator relies heavily on innovation and teamwork, so that the returns to human relations training could be conjectured to be greater under such circumstances. Finally, the configurational perspective holds that is, what is really important is the interplay among a set of HRM practices and that synergy created by mutually compatible HRM practices is what generates value for firms (Arthur, 1994). Configurational researchers look at the impact of bundles of HRM practices as a whole, rather than individual components, on firm performance. This is sometimes characterized as “internal fit” (or complementarity among the components of the HR system), while the contingency versus universalistic debate relates to the need for “external fit” (or complementarity between organizational conditions and the HR system). In fact, the configurational perspective is consistent with either the universalistic or contingency perspectives.

The contingency perspective has considerable theoretical appeal rooted in the Western literature dealing with organizational design and management (Thompson, 1967). In the case of HR systems, Schuler (1988) lays out a range of behavioral repertoires he suggests to be mandated by organizational strategic needs (e.g., risk taking versus risk avoidance, cooperation versus independent action, rule adherence versus innovation); these in turn are achieved through the selection of appropriate HRM practices from menus of options in such areas as staffing, assessment, training and development, and compensation. Begin (1997) offers an analogous framework, though one intended to understand organizational HR systems cross nationally. Here we see a multi-tiered set of system outcomes, ranging from employee competence to system integration and financial flexibility—all of which ultimately determine organizational performance—driving the selection of HRM system components (again arrayed in a menu-like framework similar to Schuler’s).

Despite the intellectual appeal of a tightly woven framework where optimal fit between organizational and HR system is the motivating force, much of what is written these days questions the veracity of the conventional contingency perspective. Critics of the contingency viewpoint maintain that most organizations, and certainly those highly active in the global marketplace, require flexibility and that this overrides other concerns, such as external fit. Such a viewpoint supports the general adoption of HPWSs, either in a piecemeal manner or as a unified system. For one thing, HPWSs promote the competence and commitment of employees and this readies firms to adapt to frequent change (Lado & Wilson, 1994; Ulrich, 1998; Ulrich & Lake, 1990). HPWSs promote viewing the world in more complex and varied ways, so that employees can make greater sense out of changing circumstances and respond appropriately (Lado & Wilson, 1994; Snell et al., 1996). HPWSs also put firms in a position to have a self-renewal process and thus adapt more adequately to turbulent environments (Nonaka, 1988; Teece, Pisano, & Shuen, 1997). Huselid (1995) also holds that turbulent environments require firms to rely increasingly on the discretionary contributions of their employees, including those in lower-level occupations. To this end, he maintains that HPWSs motivate workers in this direction by rewarding effective discretionary effort and help the firm to recruit and retain employees capable of acting autonomously. Finally, Wright and Snell (1998) provide a synthesis of the contingency and



universalistic perspectives that emphasizes the importance of flexible, responsive work systems.

There is an extensive body of empirical literature that examines the impact of HPWSs on firm performance. Delery and Doty (1996) test both the universalistic and contingency perspectives, finding that while the former has considerable explanatory value, the addition of interaction effects implied by the latter do not significantly improve the fit of the model. In particular, Delery and Doty found that firms utilizing HRM practices consistent with HPWSs generally outperform more traditional HR systems and this occurs regardless of business strategy. Other research in this (e.g., Arthur, 1994; Becker and Gerhart, 1996; Delaney & Huselid, 1996; Huselid, 1995; Huselid, Jackson, & Schuler, 1997; Youndt, Snell, Dean, and Lepak, 1996; Chadwick & Cappelli, 1998; Ichniowski, Shaw, & Prensushi, 1993; MacDuffie, 1995) has tended to generate similar findings, with much of this work supporting a configurational view. Thus, in general there is strong evidence supporting the efficacy of HPWSs in many if not most organizational contexts. However, further work is necessary to discern the extent to which contingency factors might moderate the HPWS-firm performance relationship.

High Performance Work Systems in Asia

Granted that HPWSs are effective in Western contexts in promoting organizational performance, it does not necessarily follow that they will be all that workable in the very different cultural settings of East and Southeast Asia. Work by Kirkman and Shapiro (1997) discusses cultural factors that might impact the effectiveness of self-managed teams, often a central feature of HPWSs. Applying Kirkman's and Shapiro's framework, the collectivist nature of Asian cultures would certainly increase the receptivity of workers in the region to the team aspect of HPWSs. However, the self-management aspect is another issue. The hierarchical nature of Asian cultures, in which those of lower status often tend naturally to defer to those of higher status, and in which higher status individuals expect such deference, would seem to militate against the effectiveness of these types of systems. Managers are apt to be disinclined to share power and subordinates may be disinclined to accept it.

Harmonious relationships are another cornerstone of East and Southeast Asian culture. But HPWSs require innovation and change, factors that might well promote at least significant degrees of short-term conflict. Thus workers might be quite uncomfortable with systems that require team members to raise questions about the wisdom on one another's proposals for solving a problem, which raises with the possibility of loss of face for someone. One might note that group problem solving has long been a part of Japanese employment systems. However, as Morishima (1998) observes, the Japanese system is really designed to generate what he terms "incremental knowledge"-knowledge necessary to solve fairly immediate problems within a limited domain. HPWSs often lead to the creation of "innovative knowledge," which may move the organization into entirely new directions or which at least deviates very substantially from the status quo. Conventional Japanese consensual decision making systems, Morishima argues, are ill-suited to this task as they require consensus that may

take considerable time to generate. Consensus is not always an aspect of HPWSs, as a team or group leader may make decisions after hearing various perspectives, even if there are highly divergent viewpoints within the group.

Despite these limitations on the HPWS workability seemingly endemic to Asian culture, there is a reasonable amount of empirical work suggesting that HPWSs are potentially as effective in Asia as in the West. In Korea, for example, the industrial restructuring that began even before the 1997 financial crisis has led to the adoption of various elements of HPWSs in many Korean firms (Bae, 1997), which Bae and Lawler (forthcoming) found increased firm performance. They argued in part that this might be linked to cultural change in Korea, that with economic growth and exposure to Western cultures, Korean workers (at least the younger ones) are more individualistic and less deferential to authority, leading to a culture that has been termed “dynamic collectivism.” This seems likely to be a force in other East and Southeast Asian cultures that have undergone rapid growth in the past couple of decades. Other empirical studies have similarly shown HPWSs to be effective in Asian settings, including work in Japan by Morishima (1998), in Korea by Lee and Johnson (1998), in Chinese Taipei by Uen (1998), in Hong Kong by Ngo, Turban, Lau, and Lui (1998), and in India by Sivasubramaniam and Venkata Ratnam (1998). Some of the Asian studies find a contingency relationship between business strategy and HR system, while others only find a positive relationship between use of HPWSs and firm performance.

Despite cultural constraints, it appears that HPWSs have promise in Asia as a means enhancing firm effectiveness and thus promote economic recovery and further growth. However, to date, cross-national research on this topic in Asia has not taken place (i.e., all studies of the HPWS-firm performance relationship have been conducted in individual countries). Our work looks at this across three different countries, all of which have experienced high rates of economic growth but are very different in other respects. Korea and Chinese Taipei have reached high levels of economic development, while Thailand is at a much lower level. Korean firms tend to be large-scale operations, while Taiwanese companies are often small and medium-sized; Thailand has a mixture of both types of companies. The high technology sectors are well developed in Korea and Chinese Taipei, but much less so in Thailand. And these countries differ substantially geographically and in many ways culturally (e.g., a significant proportion of Koreans, including the business elite, are Christian, the people of Chinese Taipei generally follow traditional Chinese religious practices (Daoism and Mahayana Buddhism), while the Thais are mainly Theravada Buddhists. Finally, we examine HPWSs as implemented among lower-level (non-managerial) employees, as it is here that issues of empowerment and worker autonomy are most critical if an organization is really going to build what is truly a high performance work system. We thus have a varied sample to test the hypothesis that emerges from the previous discussion:

Hypothesis 1: Utilization of high performance work systems implemented among lower level (non-managerial) employees will increase firm performance.

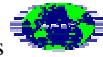


A related issue is whether any relationship between HPWSs and firm performance is moderated by firm business strategy. In particular, we might anticipate that HPWSs are better suited to differentiation strategies and more traditional HR systems are better suited to cost leadership strategies. We examine this possibility in our empirical work as we test Hypothesis 1.

Granted that HPWSs impact performance in Asian firms, there is the role that scale of operations might also play as a moderator of the importance of HPWSs. A lot of what has been written about HPWSs has been concerned with the ways in which such an approach can serve to make larger firms with bureaucratic control systems more responsive to turbulent environments. However, this might not be all that helpful in guiding policies in smaller scale operations. Redding (1995) describes some of the characteristics of the prototypical small and medium-sized Chinese enterprise: family owned and managed, centralized decision making with a dominant chief executive, paternalistic organizational environment, cost consciousness and a concern with efficiency, and extensive strategic adaptability resulting from a dominant decision maker. Thus, such organizations would seem to combine certain features necessary to function effectively in today's environment. As they are smaller scale, it is easier to institute change. Family management naturally leads to identification with the firm's goals on the part of the management group and a paternalistic stance toward employees in general, with employees offering loyalty and hard work in return, helping to make the organization operate as a unified whole. Unlike Japanese firms, where consensual decision making is a central process, the Chinese enterprises have a centralized decision maker who can quickly initiate change without a prolonged consideration of issues and options.

In such organizations, HPWSs might not add much value, since mechanisms are already in place to promote flexibility. Yet there are other considerations. Increasingly rapid change, both as result of globalization pressures and rapid technological change, may require technical expertise that is beyond the understanding of the family patriarch. Management has become increasingly professionalized within Asia as MBA programs have become commonplace. So more junior family members with professional training, as well as professional managers hired from outside the family, often resent their inability to influence decisions and the firm is denied their expertise. And lower level employees may have much to offer with regard to enhancing efficiency and resolving problems associated with major organizational changes. Finally, many of the newer small and medium-size firms being established in areas such as the high-technology sector are not conventional family enterprises. They are professionally management organizations in which the need for input from all levels is important and recognized. These competing arguments suggest the following hypothesis:

Hypothesis 2: The relationship between firm performance and utilization of high performance work systems among lower level (non-managerial) employees will be weaker in small and medium-sized firms than in large firms..



RESEARCH METHODS

The questionnaire developed for this survey assessed the various components of a firm's HR system, firm size, organizational strategy, firm performance, and other organizational characteristics (e.g., characteristics of the HRM subunit and the firm's geographical location). The questions focused on HRM practices with respect only to non-managerial employees. The questionnaires, which had been translated into Korean, Thai, and Chinese, were administered to individuals with principal responsibility for HRM in a random sample of firms in South Korea, Thailand, and Chinese Taipei. The sample consists of a total of 506 firms. These were randomly selected from leading business directories in each country and consisted of both indigenous and foreign-owned firms. Indigenous firms are defined as those wholly owned by nationals of the focal country or joint ventures with foreign firms that are controlled by nationals of the focal country.

The dependent variable used in this study is the firm's *financial performance*. We use a subjective measure of performance derived from a scale developed by Khandwalla (1977). Likert-items measured perceived financial strength, profitability, growth rate, and market share. The reliability (coefficient alpha) for the scale, composed of four items, is .77. Although objective measures of performance, such as return on investment based on accounting data, would seem a more appropriate measure, its use is problematic. First, the study involves companies in three different countries with distinct accounting standards, so there are comparability problems. Second, many companies in Asia are reluctant to disclose financial data, so the necessary information is often not available.

The principal independent variable in our study is the firm's *HR system*. This is based on four distinct scales: HR flow, work system, reward system, and employee upward influence. These have been described in detail elsewhere (Bae, Chen, and Lawler, 1998) and will thus be only briefly described here. Various Likert-items were used to measure HRM practices argued to reflect these underlying dimensions. In some instances, questions developed by other researchers were used, while some items were developed by the authors (see Bae, Chen, and Lawler (1998) for a description of the components of the scale) Firms that are high on the *HR flow scale* utilize extensive selection and training procedures and have relatively high job security. The scale is composed of six items with a reliability (alpha coefficient) of .71. The *work systems scale* covers job design and control types. Firms at the upper end of this scale tend to use broadly defined jobs with enriched designs, team-based work organization, and employee autonomy. Narrowly defined jobs and a greater presence of rules and formal controls characterize firms at the lower end of the scale (four items and alpha of .68). The *reward system scale* reflects the degree of the linkage of performance and pay level and the presence of employee ownership programs. Firms at the high end of the scale emphasize pay for performance, gain sharing, and/or profit sharing (six items and alpha of .70). The *employee influence scale* measures the extent to which employees as stakeholders are involved in decision making in job-related and organizational issues. High values represent high employee involvement and autonomy (four item and alpha of .71).



In all of these scales, high values represent aspects of HPWSs, while low values represent more traditional, bureaucratic employment systems. Not surprisingly, then, scales are highly intercorrelated and may, in fact, reduce to a single dimension (Bae and Lawler, forthcoming). Thus, we have also generated a composite index of the HRM system as a whole that is constructed by summing all four HRM policy area scales. This index ranges along a continuum from the traditional work system at the lower end to HPWS at the higher end. This composite index (i.e., the sum of the four subscales) has an alpha coefficient of .81.

Another important independent variable in the study is the firm's *organizational strategy*. This is measured in the same way as described by Bae and Lawler (forthcoming). Likert items are used to measure the extent to which the firm pursues a business strategy of differentiation (Porter, 1980). The scale consists of eight items with an coefficient alpha of .88.

Other control variables include firm age, firm size (number of employees), union status (a dummy variable that is coded 1 when the firm is unionized, 0 otherwise), and dummy variables indicating the firm's home country (Chinese Taipei served as the reference group, so that dummy variables representing Thailand and Korea appear in the regression analysis). Finally, data for this study were collected over several years, starting in 1996 and ending in 1999. Since we are analyzing firm performance, we might anticipate decreased firm performance after the 1997 Asian financial crisis. Therefore, a dummy variable is included indicated if the data for a case were collected prior to or after the onset of the crisis. Descriptive statistics for all of these variables appear in Table 1, along with the matrix of inter-correlations among the variables.

Table 1 About Here

DATA ANALYSIS

We use the conventional definition of small and medium-sized firms as those with 500 employees or less. Approximately 66% of the firms in this study fell into the "small and medium" category using this criterion. Firms in the study ranged in size from thirteen employees to 46,000 employees. Taking the set of firms studied as a whole (foreign and indigenous), the proportion of small and medium-sized firms was about the same in each of the three counties. However, the distribution was quite different in the case of indigenous firms. As might be anticipated, only a small proportion of the forty indigenous Korean firms in this study (25%) fell into the "small and medium sized" category and, just as expectedly, a substantial proportion of the 215 indigenous firms of Chinese Taipei (61%) fell into this category. However, Thailand had the largest proportion of small and medium-size firms (70% of the 29 indigenous Thai firms).

Differences in HR Systems

Our first task is to determine whether and to what extent firms differ in terms of their utilization of HPWS-related HR methods across the three countries studied here and as a function of the size of the firm. Small and medium sized firms of Chinese Taipei become the reference group here as we are concerned with the extent to which HR system differ in Korea and Thailand from those typical of what are presumed to be the most flexible and responsive of firms (i.e., the small and medium-size companies of Chinese Taipei).

A series of *t*tests indicates something about the differences in HR systems between groups of cases. When we compare all large to all small and medium-sized firms, we find that the large firms have a generally higher score on the HR systems scale (4.22 vs. 4.08; $t = 2.18$; $p < .05$).² This is somewhat surprising, since one might expect smaller firms to utilize less structured HR systems, although the greater informality available in small and medium-sized firms may substitute for the purposeful design of such systems. Indigenous firms across all three countries tend to rely to a greater extent on HPWSs than MNC subsidiaries (4.18 vs. 4.05; $t = 2.05$; $p < .05$). If we look only at indigenous firms, large firms are no more likely to use HPWSs than small and medium-sized firms (4.19 vs. 4.17; $t = .274$; no significant difference). However, indigenous firms of Chinese Taipei tend to rely much more heavily on HPWSs than either indigenous Thai or indigenous Korean firms (4.25 for people in Chinese Taipei versus 4.00 for pooled Thai-Korean; $t = 2.83$, $p < .01$).

Regression Analysis

Our concern here is to determine the extent to which small and medium-sized firms differ from large firms in terms of the role the organization's HR system might play in determining firm performance. In addressing this issue, we can gain insight into differences in HR system requirements needed by Asian firms, especially as smaller and more flexible firms play more significant roles in the regional economy. Results presented in Table 2 relate to this issue.

Table 2 About Here

We first regressed firm performance against the set of independent variables described above using the entire set of cases in the sample. These cases were broken down into two groups: small and medium-sized and large firms. This set of cases thus includes both foreign-owned and indigenous firms in all three countries in the study. The first column in Table 2 contains the results for the small and medium-sized firms, while the second contains the results for the large firms. In both instances, the overall analyses are statistically significant and explain reasonably high proportions of the variance in firm performance (given the cross-sectional and subjective nature of the data). The model explains about one-third of the variance firm performance for the



small and medium-sized firms and about one-quarter of the variance in the case of the large firms.

In both instances, both the composite HR system scale, which measures the extent to which a firm utilizes HPWS techniques, and the organizational strategy scale, which measures the firm's pursuit of a differentiation strategy, are significant and positive, as would be expected. The firm's age is also important in both cases, with older firms generally doing less well than newer firms. Again, the age relation would be expected, as new firms are presumably responding to high-growth market opportunities and older firms may be further along in a product's life cycle. One variable that did not seem to matter is the firm's size. Of course, the sample is broken down roughly by size, but this result suggests that within the two size categories, variations in firm size per se do not seem to matter. Although not reported here in detail, a separate analysis with the large and the small and medium-sized firms pooled showed similar results for the HPWS and organizational strategy variable, although firm size was positively related to firm performance. Yet a second size variable, controlling for the large vs. small and medium split, was not significant (even when the size variable was deleted). Thus being in one versus the other major size category did not seem to matter all that much with regard to firm performance.

This first analysis, containing both indigenous and foreign firms, suggests there is no difference between the two groups in terms of the importance of utilizing HPWSs to improve firm performance. In fact, the HPWS coefficients are virtually identical for both groups. In the case of large firms, reliance on an organizational strategy of differentiation has a somewhat stronger impact on firm performance than for small and medium-sized firms. However, this difference is not statistically significant (applying a t-test).

A more fundamental policy issue relates to the appropriate use of HPWSs in indigenous firms. That is, if indigenous East and Southeast Asian companies are more likely to "downsize," and if start-up firms are more likely to be smaller, more flexible organizations, and if there is something about these companies that distinguishes them from MNC subsidiaries (a reasonable assumption), then we should also examine these processes within the context of indigenous firms only. The third and fourth columns of Table 2 report results for the regression analysis utilizing only the indigenous firms.

The results here are somewhat different from the analysis done with the pooled data, though the differences are not all that substantial. Again, organizational differentiation strategy and reliance on a HPWS approach are positively and significantly related to firm performance. The HPWS coefficient is lower in the case of small and medium-sized firms and higher in the case of large firms than in the pooled sample. Thus, we might initially conclude that use of HPWSs is a relatively more important source of organizational effectiveness in large firms than in small and medium-sized firms, as posited in Hypothesis 2. However, the difference here is not statistically significant (applying a t-test) and the same holds in the case of the organizational strategy scale.

Finally, we did additional regression analysis in which an organizational business strategy-HPWS interaction effect was included to test the contingency perspective. The interaction effect was not found to be statistically significant under any of various model specifications. Thus, the results here are consistent with the universalistic perspective.

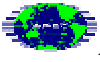
CONCLUSIONS AND IMPLICATIONS

This study evaluated two principal hypotheses. Hypothesis 1 posited that HPWSs should increase firm performance and the empirical analysis provides strong support for that position. This is true despite the fact that culture barriers exist to their introduction of HPWSs based on stereotypical notions of East and Southeast Asian culture. Furthermore, we found no support for a contingency relationship involving firm performance, HPWSs, and organizational business strategy. Thus, in general, companies need to pursue both business strategies emphasizing differentiation and implement HPWSs. Hypothesis 2 posited that HPWSs should have a weaker impact on firm performance in presumably more naturally flexible small and medium-sized firms, but that was not found to be the case in the empirical work (the estimated HPWS effect was weaker in the case of small and medium-sized indigenous firms, but this relationship was not significant).

Clearly, this study is only a start and work in other settings with more refined measures is in order. Also, research might focus on the effects of HPWSs on firm performance in other geographical settings. If HPWSs can serve to promote firm performance and do this as substantially as the results of this study indicate, then perhaps it would be useful to initiate the process of change in other countries and regions where economic development trails East and Southeast Asia. Of course, work is necessary to evaluate whether HPWS would transfer readily to such areas.

Our main findings, then, are that HPWSs seem to work well in promoting firm performance in East and Southeast Asia, that the relationship is not moderated by firm business strategy, and that the relationship does not depend on firm size. Thus, simply keeping a firm small, as in many traditional Chinese family enterprises, is in and of itself not a particularly effective source of organizational flexibility. While it might traditionally have been the case that a business-savvy family patriarch had the necessary skills and knowledge to guide a small or medium-sized firm through perilous waters, the continuing pressures of globalization and rapid technological change, coupled with secondary pressures such as deregulation of the marketplace, renders this model generally obsolete.

These results hold in the case of indigenous firms, so that this work has implications as a guide for local companies and for public policy makers interested in promoting the competitiveness of their respective countries' indigenous companies. Continuing pressures associated with globalization, technological change, and market deregulation suggest a continuing need for firms to utilize HPWSs in some form or the other. This applies equally in larger and smaller-scale operations. Small and medium-sized firms may become more common throughout Asia in future years, but the



traditional study of management in this type of Asian firm, in which a single leader makes most important decisions, will likely need to give way to systems in which there is more employee participation from the bottom on up.

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¹ Granted, many countries still have trade barriers, but these are rapidly eroding.

²The composite HR system scale ranges in value from 1 to 6, with higher values indicating a greater tendency to utilize a HPWS.

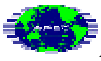


TABLE 1
DESCRIPTIVE STATISTICS AND CORRELATION MATRIX

Variables	Mean	SD	1	2	3	4	5	6	7	8	9
1. Firm Performance	4.36	0.83	1.000								
2. High Performance Work System	4.13	0.68	0.358	1.000							
3. Differentiation	5.42	0.96	0.422	0.534	1.000						
4. Unionized Firm	0.35	0.48	0.019	-0.004	-0.046	1.000					
5. Firm Age	21.39	15.02	-0.091	0.072	0.051	0.226	1.000				
6. Pre-Crisis	0.38	0.48	0.029	-0.239	-0.331	0.239	-0.120	1.000			
7. Korea	0.27	0.45	0.064	-0.312	-0.341	0.252	-0.066	0.790	1.000		
8. Thailand	0.10	0.31	-0.012	0.078	-0.184	-0.128	-0.047	-0.265	-0.209	1.000	
9. Employees	947.41	2983.41	0.092	0.010	0.003	0.241	0.290	0.141	0.153	-0.037	1.000

TABLE 2
REGRESSION RESULTS

	Small-Medium Firms		Large Firms		Small-Medium Indigenous Firms		Large Indigenous Firms	
	<i>B</i>	<i>t-value</i>	<i>B</i>	<i>t-value</i>	<i>B</i>	<i>t-value</i>	<i>B</i>	<i>t-value</i>
Constant	1.494	5.141 ^a	.639	1.037	1.757	4.177 ^a	.183	.235
High Performance Work System	.267	3.973 ^a	.276	2.088 [\]	.215	1.994 ^b	.362	2.005
Differentiation	.339	6.591 ^a	.446	4.817 ^a	.355	4.259 ^a	.453	3.588
Unionized Firm	-.139	-1.499	4.542E-02	.308	-2.936E-02	-.176	.116	.637
Firm Age	-8.704E-03	-2.437 ^b	-6.665E-03	-1.869 ^c	-1.152E-02	-2.435 ^b	-6.803E-03	-1.695
Pre-Crisis	-.360	-2.430 ^b	.409	1.982 ^b	-.332	-1.404	.421	1.573
Korea	.822	5.425 ^a	.192	.837	.605	1.942 ^b	.237	.801
Thailand	.141	1.045	.614	2.334 ^b	-1.407E-02	-.072	.643	1.875
Employees	1.186E-04	.353	2.017E-05	1.430	-5.862E-05	-.113	1.843E-05	1.165
Adjusted R2	.326		.254		.303			
F-Ratio	18.846		6.998 ^a		8.432 ^a			
N	295		141		137			

a=significant at .01 level; b = significant at .05 level; c = significant at .10 level.