Today a firm’s success largely depends on the capabilities of its members. Firms may have the capital and technology, but it is Human Resources (HR) that will help firms face the challenges of business globalization. Capital can be generated. So can technology. But the HR required to propel an organization through the coming challenges must be rightly and appropriately encouraged and motivated.

Significantly, these days careful management of this important resource calls for a strategic focus on Human Resource Management (HRM) in the organization. Previous research on HRM widely accepted that employees create an important source of competitive advantage for firms (Barney, 1991; Pfeffer 1994). As a result, it is important that a firm adopt HRM practices that make best use of its employees. This trend has led to increased interest in the impact of HRM on organizational performance, and a number of studies have found a positive relationship between so-called “high-performance work practices” (Huselid, 1995) and different measures of company performance. Furthermore, there is some empirical support for the hypothesis that firms, which align their HRM practices with their business strategy, will achieve superior outcomes (Bae & Lawler, 1999).

However, a review of the literature indicates a serious lack of large-sample empirical studies designed to investigate whether extensive use of “high-performance” HRM practices and a good alignment between HRM and firm strategy have positive effects on the performance of multinational companies located in developing countries in Asia, except Malaysia. Moreover, research in the area of strategic HRM has been almost exclusively carried out in the Western world. To fill some of the voids in the literature, this study generally aimed at examining the relationship between HRM practices and Japanese multinational companies in Malaysia. This study specifically chose Japanese multinational corporations for analysis because Japanese firms have invested extensively in Malaysia. These multinational companies may have transferred some high-performance work system practices to Malaysian operations. Thus, there is a need to assess the effectiveness of these techniques and how great the impact is on firms’ performance. Specifically, the objectives of this research include the following:

- To examine the relationship between organizational strategies and HRM and their impact on firm performance
- To identify which organizational and HR policies and practices might lead to better firm performance
- To provide some practical implications of HRM strategy on firm performance for managers and practitioners
Literature Review

Being one of Malaysia’s largest investors, Japan has always been regarded as an active partner contributing to the economic development of Malaysia. The close and cooperative ties between Japan and Malaysia facilitate substantial growth in trade, investment, technical cooperation, and the expansion of collaboration into new areas such as information technology as well as development into manufacturing industry. Japan’s financial assistance has also allowed Malaysia to proceed with its financial development, particularly during the Asian economic crisis of 1997. In terms of foreign direct investments, Japan continues to be an important source for Malaysia. Most important, because Japanese technology has also facilitated industrial development and Japanese institutions of higher learning have assisted in HR training, it is most appropriate to study these HR-related issues in Japanese firms operating in the country, particularly those in the manufacturing industry.

In 1982, Malaysia adopted the “Look East Policy” as part of the country’s development strategy. Malaysia was convinced that Japan’s phenomenal rise as an industrialized nation after World War II was due in part to the work ethics and values adopted by the Japanese workforce. Eager to emulate Japan’s success, Malaysia decided to send students and trainees to Japan. Since then, thousands of Malaysians have obtained their tertiary education as well as benefited from advanced training under the policy. Today, Malaysia still believes that the “Look East Policy” is relevant. Therefore, ascertaining the type of HR practices and learning Japanese beliefs in HRM values would enlighten the local companies in advancing their HRM practices, aligning them with organizational strategies pursued and subsequently improving local firms’ performance.

Theoretical Framework of Strategic HRM

Strategic HRM (SHRM) theory has often been used as the basic framework for the investigation of HR strategy and firm performance. This section looks into the key differences among the universalistic, contingency, and configurational perspectives revolving around SHRM.

Universalistic perspective calls for “best practices,” which implies that some HR practices are always better than others. Accordingly, firms that adopt these practices will see better performances. Within this school of thought, seven practices have been consistently identified as strategic HR practices (Osterman, 1987; Sonnenfeld & Peiperl, 1988): internal career opportunities; training systems; appraisals; profit-sharing plans; employment security; voice mechanisms, including formal grievances systems plus participation in decision making; and the degree to which jobs are tightly or narrowly defined. Despite its criticisms, many researchers have supported the universalistic predic-

On the other hand, contingency perspectives entail that an organization needs to adopt specific HR policies and practices for different strategies. Thus, to be effective, an organization’s HR policies must be consistent with other aspects of the organization. By having appropriate HR policies and practices in place, organizations can elicit employee behaviors that are consistent with an organization’s strategy. For example, organizations can use HR practices to ensure that employees are motivated to behave in ways consistent with the business strategy (Fama & Jensen, 1983; Kerr & Jackofsy, 1989). In relation to this, it is proven that Japanese-style management places great emphasis on HR practices, because the Japanese strongly believe that employee-based HR practices can mold the productive workforce that firms need (Rose, 2002).

Finally, the configurational perspective in SHRM is concerned with how patterns of multiple, planned HR deployments and activities achieve the organization’s goals. An organization must develop an HR system that achieves both horizontal and vertical fit (Becker & Gerhart, 1996). Horizontal fit refers to the internal consistency of the organization’s HR policies or practices, and vertical fit refers to the congruence of the HR system with other organizational characteristics, such as a firm’s strategy. Numerous authors have attempted to develop prior typologies of effective HR systems and link the performance of HR systems to firm strategy (Arthur, 1992; MacDuffie, 1995; Miles & Snow, 1984).

Conceptual Framework

Pioneer research conducted by Bae and Lawler (1999) serves as the primary source of reference for this research. Significantly, the conceptual framework of this study is developed using the model presented in Figure 1 on page 20. This model depicts firm performance as affected by organizational strategy (responsiveness to external customers and markets), speed (internal efficiency through reengineering), and HRM strategy (mobilization of human assets), with HRM strategy mediating the relationships between key organizational variables and performance. The theoretical constructs and the rationale for each hypothesized relationship in this study are developed based on this model.

An important issue in SHRM is whether a company should develop its competence internally or externally, what Lepak and Snell (1999) termed as “make” (internal development) and “buy” (acquire externally) dimensions. Following Bae and Lawler’s conceptualization (1999), the make-and-buy dimension is related to the acquisition, development, and retention of employees (patterns of competence management). The “make” strategy relies primarily on the internal
development of critical HR, while the “buy” strategy emphasizes acquisition of such competencies via the external labor market. Several relevant practices of the “make” strategy include selective recruiting, extensive training, promotion from within, and long-term attachment mechanisms.

As many researchers have observed, internal development has been linked to a number of desirable organizational effects, including greater stability and predictability of a firm’s stock of HR, higher commitment to an organization, and better coordination and control. Despite these advantages, certain organizations may still choose an acquisition strategy. Internalization may incur significant costs, and buying or externalization may have significant advantages, including cost reduction and numerical flexibility enhancement regarding employment (Pfeffer & Baron, 1988).

Nevertheless, firms can use multiple HRM strategies. Make-and-buy strategies are not necessarily mutually exclusive (Lepak & Snell, 1999).

**Hypotheses**

In relation to the theoretical support proven by previous findings, this study proposes its first hypothesis: Hypothesis 1—An organization with a management that strongly values HRM and people as a source of competitive advantage is more likely to use high-involvement HRM strategies.

High-involvement HRM strategy is typically characterized by significant delegation of authority to lower-level employees (empowerment), extensive training and development, reliance on pay for performance (significant contingent or “at-risk” pay), broadly defined job responsibilities, and employee participation in nonwork aspects of organizational decision making. This hypothesis is developed in conjunction with the view that the more management believes that HRM contributes to corporate success, the more its role will be integrated into the firm’s strategic planning process (Butler, Ferris, & Napier, 1991).

Significantly, Porter (1980, 1985) argues that two successful “generic” business strategies to achieve sustainable competitive advantage over other firms in the industry are the cost leadership strategy and the differentiation strategy. Again, the implications of managing people pursuing this differentiation strategy call for high-involvement HRM strategies that involve selecting highly skilled individuals, giving employees more discretion, using minimal controls, making a greater investment in HR, providing more resources for experimentation, allowing and even rewarding occasional failure, and appraising performance for long-run implications. Clearly, product differentiation is linked to a flexible work system, extensive training, and high employee involvement.

Thus, to examine whether differentiation strategies correlate with HRM strategies, the second hypothesis to be tested in this study is as follows: Hypothesis 2—Organizations with differentiation strategies are more likely to have high-involvement HRM strategies. Furthermore, organizational strategy pursued by any firm may have several impacts, positive or negative, on firm performance. This leads to the third hypothesis: Hypothesis 3—The extent to which a firm pursues a differentiation strategy is positively related to firm performance.

In view of the highly competitive and global landscape, the importance of time-based competitive advantage can never be overlooked. Bae (1997) specifically pointed out enhanced response speed as a significant aspect of evolving Korean business strategies. Similarly, the relationship between response speed as part of organizational strategy with HR strategy as well as firm performance should be determined in this study with formulation of the following two hypotheses: Hypothesis 4—Organizations emphasizing higher speed in firm activities and services for internal and external customers are more likely to have high-involvement HRM strategies; and Hypothesis 5—The speed of firm activities and services for internal and external customers is positively related to firm performance.

Finally, many researchers have studied whether strategic HRM is a determinant for firm performance (Arthur, 1994; Bird & Beechler, 1994; Cutcher-Gershenfeld, 1991; Delaney & Huselid, 1996; Ferris, Russ, Albanese, & Martocchio, 1990; Huselid, Jackson, & Schuler, 1997). Most studies revealed a positive relationship between HRM policies and practices and firm performance. Whether this relationship exists in this study remains a question. Thus, the last hypothesis to be analyzed is as follows: Hypothesis 6—The presence of a high-involvement HRM strategy is positively related to firm performance.

![Figure 1. Framework of Organizational Strategy, Strategic HRM, and Firm Performance (Source: Bae and Lawler, 1999).](https://www.ispi.org/april2006/figure1.png)
Research Method

The research framework of this study is based on the work of Bae and Lawler (1999), which examined the effects of such organizational strategic variables as management values on HRM and the sources of competitive advantage. We then identified all variables being used and further categorized them into independent variables, moderating variables, intervening variables, and dependent variables (see Figure 2).

Anchored in the work of Bae and Lawler (1999), a structured questionnaire was developed consisting of six sections. The first section of the questionnaire sought to determine the role and status of HRM in the respondent companies, based on five different components aimed at measuring respondent companies’ HRM strategy: extensive training, empowerment, selective staffing, performance evaluation, and performance-based pay. These were assessed on a six-point scale, ranging from 1 meaning very inaccurate to 6 very accurate. There were 28 items measuring the HRM strategy. Section two (11 items) and three (10 items) of the questionnaire aimed to ascertain the types of business strategies adopted by the companies. Differentiation strategy was measured with seven-point scale; 1 meant no competitive advantage at all and 7, almost exclusive competitive advantage. On the other hand, the “speed” strategy, measured in section three, was assessed on six-point scale, ranging from 1 as very inaccurate to 6, as very accurate. Section four of the questionnaire examined the respondent companies’ belief in HRM values. Six items were used to assess the HRM values on six-point scale ranging from 1 meaning very inaccurate to 6, very accurate. Part five of the questionnaire asked respondents to rate their firms’ performance compared to industry average. All nine items in this section were assessed on six-point scale with 1 being very low and 6 being very high. Finally, section six of the questionnaire asked questions on the general information about the respondent companies.

Although all the constructs under investigation in this study were drawn from existing literature and modified by the opinions of experts and focus groups, a statistical procedure was adopted to ensure their validity. Overall, the reliability coefficient of the total 64 items undertaken in the study (excluding items on firm characteristics) was tested and found at alpha of 0.9586. This implies that all constructs in the questionnaire are highly reliable and further assures the degree to which these measures are free from error, yielding consistent results. The Cronbach alpha coefficient for the high-involvement HRM strategy was 0.9299, while the coefficients for differentiation strategy and speed strategy were 0.9303 and 0.8958, respectively. The coefficient for management HRM values was 0.8719. Finally, the Cronbach alpha score for firms’ performance was 0.8830. These results put forward a reasonable point of internal consistency in the responses.

Based on convenience sampling, a total of 300 Japanese multinational corporations were selected from the list of Japanese-related companies, provided by Japan External Trade Organization. Specifically, all the sampled Japanese multinational corporations were from the manufacturing industry and were located within Klang Valley, Malaysia. Questionnaires were addressed to the HR managers of the selected Japanese corporations. All respondents were given three weeks to complete the questionnaire. After one month of postal survey, follow-up calls were made to remind respondents of the deadlines and to provide assistance in completing the survey. A total of 42 responses were received, giving a response rate of 14%. The valid responses were analyzed using SPSS.

Findings and Discussion

The 42 Japanese multinational corporations that participated in this study were from the manufacturing sector from seven different types of industry: electrical and electronic products, wood and wooden products, food and beverages, steel and nonferrous metal products, textile and textile products, transportation machinery parts, and other manufacturing. Overall, manufacturing firms in the electrical and electronic industry accounted for most of the respondents (38%). In terms of ownership, half of the total sample (21 companies) holds the status of wholly owned foreign subsidiary and the remaining are joint-venture companies. The average number of years these multinational companies had operated in Malaysia was approximately 14 years.
On average, only five expatriates from the home country are hired in these companies. Most expatriates hired in these multinational companies are responsible for the area of technical support, followed by strategy or planning departments. Surprisingly, 10 companies reported having no HR department in the firm at all and, finally, the mean number of full-time employees working primarily on HR issues was only six administrative persons.

Significantly, Bae and Lawler’s (1999) model of organizational strategy, SHRM, and firm performance (see Figure 1) are fully supported. None of the six hypothesized statements are rejected, reflecting significant relationship among major variables undertaken in the study. Hypothesis 1 states that an organization with a management that strongly values HRM and people as a source of competitive advantage is more likely to use high-involvement HRM strategies. The result from correlation analysis shows that HRM values correlate with the HRM system. The coefficient for the relationship is 0.591, which is significant at the 0.01 level. Thus, the hypothesis is supported. This complements previous findings, which state that the more management believes that HRM contributes to corporate success, the more its role will be integrated into the firm’s strategic planning process (Butler et al., 1991).

Hypothesis 2 states that organizations with differentiation strategies are more likely to have high-involvement HRM strategies. The correlation analysis shows that the relationship is significant at 0.01, with a coefficient of 0.485. This indicates that managing people pursuing differentiation strategy calls for high-involvement HRM strategies that involve selective staffing, giving employees more discretion, using minimal controls, providing more training and development, appraising fairly, and rewarding accordingly.

In relation to this, Hypothesis 3 states that the extent to which a firm pursues a differentiation strategy is positively related to firm performance. On testing and analyzing this hypothesis, it was found that there is significant correlation between these two variables, with a coefficient of 0.513. Hence, it was proven here that implementing differentiation strategy and high-involvement HRM strategies hand in hand can ensure a firm’s performance.

On the other hand, Hypotheses 4 and 5 focused on the relationship among speed, HRM strategy, and firm performance. Hypothesis 4 was supported with a correlation coefficient of 0.561. However, Hypothesis 5 was weakly supported, with its coefficient only 0.391. Although this hypothesis was not strongly supported, it was sufficient to show that there exists significant relationship between speed and firm performance. It is worth noting that, in Bae and Lawler’s (1999) study, similar hypotheses—namely, relationship among speed, HRM strategy, and firm performance—were tested on multinational and local firms operating in Korea but were rejected. In other words, speed strategy was found to have no significant relationship with HRM strategy, and speed was not positively related to firm performance.

Finally, Hypothesis 6, which states that the presence of a high-involvement HRM strategy is positively related to firm performance, was not rejected either. The correlation coefficient for this hypothesis was rather low, 0.429; however, this result was consistent with Bae and Lawler’s finding (1999), which concludes that high-involvement HRM strategies increase firm performance.

**Implications for the HPT Professional**

Empirical findings in this study show that a firm that adopts the high-involvement strategy tends to have better performance. Hence, it is appropriate to conclude that despite the changing organizational environment, high-involvement organizational strategies are still relevant and effective facets of Human Performance Technology (HPT) work. This further confirms the universalistic perspectives, where Pfeffer (1994) has argued that to achieve competitive advantage through people, one could adopt the so-called “best HR practices.” Arthur (1994) also argued that high-involvement HRM would be associated with high organizational performance.

As a conclusion, all the major variables tested in the study, ranging from organizational strategy (management HRM values), sources of competitive advantage (differentiation and speed), SHRM (training, empowerment, selective staffing, performance evaluation, and performance-based pay), and firm performance are significantly related.

**Recommendations**

Despite its limitations, this study has some insights that can be helpful and valuable for both Malaysian companies and Japanese companies based in Malaysia. Significantly, the organizational performances reported by most of the Japanese companies participating in the study have been relatively fair. The perceived performance of these firms was measured by getting the respondents to rate nine performance criteria originated from Khandwalla (1977) on a six-point scale. Generally, the lowest score a firm can obtain is 9%, which implies that the firm performs very poorly, whereas a score as close as possible to the total score (56%) indicates that the firm performs excellently in all aspects. The lowest score for firm performance was recorded at 25% and the highest at 51%. Overall, the mean score for firm performance was 38.26%, which is relatively high, and four firms scored 46%. This shows that the majority of the Japanese multinational corporations operating in Malaysia experience high performance in terms of market-oriented performance, organizational system performance, employee job satisfaction, and employee commitment.
As earlier findings also show a significant relationship among HRM values, organizational strategy, and HRM strategy, one may safely conclude that two of the reasons these Japanese companies perform well are their strong beliefs in HRM values and their approach in aligning organizational and HRM strategies. This is a valuable insight for Malaysian companies. Indeed, Malaysian companies may learn the effects and impact brought about by viewing people as a source of competitive advantage and the benefits of practicing high-involvement HRM strategies. The high performance enjoyed by these companies should serve as strong evidence that HRM aspects or people issues should never be overlooked.

Multinational corporations such as Hitachi, Matsushita, Sharp, and NEG have been investing in Malaysia for the last 38 years; thus, their experiences in running their operation and handling people issues should always be noticed. It is, therefore, recommended that HR and HPT practitioners of local-based companies study in detail how these Japanese companies practice their high-involvement strategies. To develop a committed and productive workforce, HR and HPT practitioners should benchmark their HRM strategies against those that are undertaken in Japanese firms. Because Japan remains one of the largest foreign investors in Malaysia at the moment, it could be expected that the number of Japanese companies in Malaysia will continue to grow. The existence of these companies will not only aid in economic development but also facilitate the various learning aspects for managers.

All in all, although HRM is not proven or has yet to be proven to be the sole determinant of firm performance, this study shows sufficiently that it may be one of the determinants of firm performance. As the saying goes, “If the business does not pose a problem to you, then the people inside will.” Hence, firms that fail to perform at their expected satisfactory level may have to start looking into the “human” aspects of the organization. Undoubtedly, high-involvement HRM strategies breed a productive workforce.

**Limitations and Future Research**

The major limitation of this study lies with the size of the sample. Collecting a large enough sample of Japanese multinational corporations located dispersedly in Malaysia was difficult. Hence, the findings may be skewed and unrepresentative of the general population. Should time and cost permit, future HPT research of a similar nature should be extended to both the local firms and multinational companies operating in Malaysia. With such extension, not only can the relationship among variables be investigated, but comparisons between local and multinational firms on the subject matter can also be examined.

Second, the correlation analysis conducted in this study only examines whether there exists relationship among variables. Causal relationship remains unaddressed. This may further be improved by conducting structural equation modeling analysis through statistical software.

Third, the methods for data collection can be further improved. This study used mail surveys, which leads to problems such as common method variance, consistency motive, and social desirability. As such, future research could look into the usage of other data-collection methods.

Finally, some respondent companies found it hard to understand and answer some questions. Several respondents commented that questions were too difficult. This may be due to the nature of survey, where only English was used as the medium of instruction. This limitation explains why Bae and Lawler (1999) translated the questionnaire into Korean before implementing the survey instrument. Without translation of the questionnaire into language that respondents can understand, chances are that the respondents may have given inaccurate ratings. To avoid such limitation, future HPT research should have its survey translated into local languages as a way to facilitate multinational respondents’ understanding.

**References**


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