Corporate Organization in Japan and the United States: Is there Evidence of Convergence?

Sanford M. Jacoby
Emily M. Nason
Kazuro Saguchi

ITEC Research Paper Series
04-05
September 2004
Corporate Organization in Japan and the United States: 
Is there Evidence of Convergence?

Institute for Technology, Enterprise and Competitiveness, Doshisha University 
Research Paper 04-05

Sanford M. Jacoby  
University of California, Los Angeles  
The Anderson School of Management  
Los Angeles, CA 90095-1481  
Tel: (310) 206-6550  
Fax: (310) 825-0218  
E-mail: sanford.jacoby@anderson.ucla.edu  
and Omron Fellow  
Institute of Technology, Enterprise and Competitiveness (ITEC)  
Doshisha University

Emily M. Nason  
University of California, Los Angeles  
The Anderson School of Management

Kazuro Saguchi  
University of Tokyo  
Economics Department  
Hongo 3-chome  
Bunkyo-ku, Tokyo
Abstract:
We investigate the changing structure of Japanese and U.S. companies and ask whether there are signs of national convergence in corporate organization. We present three types of evidence to address this question: longitudinal data, cross-sectional survey data, and structural equation modeling (SEM). The models are ideal types of Japanese and U.S. companies and relate human-resource strategy and corporate governance to organizational outcomes such as employment practices and the role of the executive HR function. We find mixed evidence of convergence. The longitudinal data show some Japanese companies becoming more like those in the United States and the SEM results show a Japanese-style model emerging in some U.S. companies. However, there is also evidence from the survey data and from the SEM results of continuing differences in corporate governance, employment, and executive-decision making in Japan and the United States.

Keywords: US Japan convergence, corporate governance, organisational structures, HR strategies, stakeholder shareholder issues

JEL Codes: A13, D21, G30, J41, L20, M12, P52

Acknowledgements:
This research was supported by the Center for Global Partnership’s Abe Fellowship program, the University of Tokyo’s Center for International Research on the Japanese Economy (CIRJE), Doshisha University’s ITEC 21st Century COE (Centre of Excellence) Program (Synthetic Studies on Technology, Enterprise and Competitiveness project), the U.C. Institute of Labor & Employment, the Anderson School’s Center for International Business Education and Research, and the UCLA Academic Senate. Gerhard Helleman of UCLA’s Psychology Department played a vital role in the analyses of the primary data. The authors are grateful to the generosity of many other persons who made this project possible, including Takashi Araki, Frank Baldwin, Chris Erickson, Eve Fielder, Nate Furuta, Andrew Gordon, Takeshi Inagami, Kenichi Ito, Mariko Kishi, Keiju Minatani, Keisuke Nakamura, Yoshifumi Nakata, Michio Nitta, Naoto Ohmi, Hiroki Sato, Teiichi Sekiguchi, Fujikazu Suzuki, Yoshiji Suzuki, Kazuo Takada, Masayasu Takahashi, Satoshi Takata, Kenji Wada, Yoshihiko Wakumoto, Lai-Yong Wong, and Yoshiaki Yamaguchi.
Corporate Organization in Japan and the United States:  
*Is there Evidence of Convergence?*  
Sanford M. Jacoby / Emily M. Nason / Kazuro Saguchi

1. Introduction

Globalization of product and financial markets is causing inquiry into the possible convergence of previously distinct national institutions, everything from regulatory systems to corporate governance to employee relations (Hall and Soskice 2001). Yet much of the literature on the homogenization of the “varieties of capitalism” has a speculative quality to it. There are few empirical studies and those that exist tend to focus on macro-level institutions. The findings are equivocal, with some studies supporting the occurrence of convergence and others showing little evidence of it (Dore 2000; Guillen 2001; Katz and Darbishire 2000). There is also disagreement in the literature on what, precisely, the term convergence means. For some it implies a unidirectional movement towards American – or Anglo-American – values, institutions, and practices. For others it means conformity to an optimally efficient pattern – such as privatization or decentralization – that transcends the institutions of any particular nation. Still others collapse these distinctions and contend that the Anglo-American pattern *is* optimal (Cronin 2000).

At the enterprise level, the convergence debate has focused on two particular issues: corporate governance and employment relations. Corporate governance comprises the rules, practices, and procedures by which managers are held accountable to those who have a legitimate stake in the enterprise as well as the definition of who are those legitimate stakeholders. Issues of corporate governance include the duties of directors, methods of corporate financing, executive compensation, acquisitions and divestments, and other strategic decisions. Whether employees should have a role in corporate governance is a vital issue, both in Japan – whose postwar system of corporate governance is under challenge – and in the United States, where corporate governance is being reconsidered after the scandals – and job and pension losses – that occurred at Enron, WorldCom, and other firms. Giving employees a substantial voice in corporate governance is associated with a “stakeholder” model of corporate governance, whereas privileging stockholders we might term the “shareholder sovereignty” model (Jacoby 2004).

Employment relations include the presence or absence of internal labor markets that provide privileges to incumbent employees, such as giving those employees preference when filling vacancies, retaining them during business downturns, and
paying attention to internal equity in wage setting. Conversely, some companies lack internal labor markets and give little or no preference to insiders when filling vacancies, are quick to discharge employees during downturns, and rely strictly on market principles in setting pay. Employment relations also include the structure of management decision-making for human resources. Internal labor markets are associated with centralization of decision-making, that is, with a strong human resource (HR) department at corporate headquarters. Conversely, a market-oriented approach is associated with decentralization of management decisions and a relatively weak HR function (Doeringer and Piore 1971).

Recent research indicates that there is a link between corporate governance and employment relations (Tachibanaki and Taki 2000). When governance privileges shareholders, companies find it difficult to sustain firm-specific investments in human capital and are inclined to shift adjustment risks (e.g., in case of a business downturn) to employees via layoffs. Conversely, a stakeholder approach is consistent with firm-specific human capital accumulation and the sharing of risks – and rents – between shareholders and other stakeholders, such as employees (Armour, Deakin, and Konzelman 2003).

Another factor of importance is a company’s strategy for utilizing human resources, which drives its choice of employment relations practices. Efficiency wage theory offers a way of conceptualizing HR strategy. It starts from the observation that there is dispersion of occupational wage rates within industries, with firms paying both above and below the median, even after controlling for labor-quality differences (Levine et al. 2003). Companies paying above the median are said to be following an efficiency-wage strategy in which premium wages raise the cost to employees of dismissal, thereby boosting employee effort and reducing monitoring costs. Efficiency wages also reduce turnover and therefore make it feasible for companies to train employees in firm-specific and possibly even general skills. These human-capital investments transform employees into quasi-assets. Conversely, companies paying wages below the median experience higher turnover and are much less likely to invest in employee skills. In these firms, employees are viewed not as assets but as commodities. Companies accommodate high turnover by continually seeking to reduce their labor costs (Leonard 1987; Groshen 1991).

The decision of whether or not to pay efficiency wages is often determined by, and articulated with, a company’s overarching business strategy (Bird and Beechler 1995). Viewing employees as assets derives from a resource-based view (RBV) of business strategy, in which companies seek competitive advantage from inimitable resources that other companies do not possess, such as intellectual property or unique
human and physical assets (Barney 1991). Resource-based strategy is inward looking and, as such, concerned with strengthening organizational processes that make a company distinctive. Employees – intellectual capital – are a key resource. Hence an RBV based on employees should be associated with an efficiency-wage approach to HR strategy. Conversely, companies paying below-median wages – for whom labor is simply a cost to be minimized – are likely to seek competitive advantage in factors other than labor, whether internal (e.g., technology) or external (barriers to entry).

To illustrate, we present three examples drawn from recent experience. Wal-Mart, a multinational discount retailer, derives competitive advantage from its inventory system and supplier relationships, which keep its costs – and prices – low. It pays at the bottom end of the compensation scale and experiences high turnover of its nonunion workforce. Less well known is Costco, another major discount retailer that competes against Wal-Mart. Costco relies on its trained and loyal employees as a key component of its business strategy, which combines low prices with good service. It pays its unionized workers above-median wages and has lower turnover as well as higher labor productivity than Wal-Mart (Holmes and Zellner 2004).

In Japanese retailing, a similar comparison is that between Oozeki and Seiyu, both supermarket chains. Oozeki tries to minimize its reliance on part-time employees because, according to its CEO, full-time (and better paid) employees are more sensitive to customer needs, which boosts customer retention. Over seventy percent of Oozeki’s employees work on a full-time basis, whereas at Seiyu, over seventy percent of employees are part-timers. Wal-Mart acquired a major stake in Seiyu in 2002 and five Wal-Mart executives now sit on Seiyu’s board. Seiyu is adopting Wal-Mart’s shipping and display methods to raise labor productivity, as well as its approach to distribution, logistics, and supplier relationships to boost competitive advantage (Troy 2003).

A third pair of contrasting companies comes from the U.S. fast-food industry: McDonald’s and a competitor fast-food chain called Chick-fil-A. McDonald’s derives competitive advantage from key geographic locations (a kind of monopoly), from its standardized production systems, and from frequent price promotions. Like Wal-Mart, it pays at the low end of the scale and has very high turnover. By contrast, Chick-fil-A, which is less well-known than McDonald’s, rarely uses price promotions to sell its products yet it has very strong customer retention rates. It pays 30 to 50 percent more than competitors and has much lower turnover of store managers and employees. High wages translate into lower supervision costs (it has only twenty-five people on its field staff in the United States) and a committed workforce that regularly develops new ideas for product improvement, whereas at McDonald’s it is middle management that exclusively handles product and process improvements. Unlike Costco, however,
Chick-fil-A is a privately-held company, a relevant factor in the strategy-governance relationship (Reichheld 1996).

HR strategy and business strategy are not usually considered in the literature on convergence, although a few scholars have recognized that particular approaches to strategy are dominant in particular countries (Carlin and Soskice 1997) and that this may be related to nation-specific institutions such as innovation systems and regulatory policies (Mowery and Nelson 1999). Hence it is our inference that particular strategies are dominant in particular countries and that this may be related to differences in corporate governance, ownership patterns, and other factors.

In fact, during the 1980s, the relationships between these variables – corporate governance, strategy, and employment – took on different patterns in large Japanese and U.S. companies. The central Japanese tendency – that is, the ideal-type “J firm” – was a company in which corporate governance was organized along stakeholder lines, with executives balancing the interests of different constituencies (Aoki 1988). Business strategy was resource-based, which resulted in a powerful headquarters HR function and in HR strategies that emphasized a view of employees as assets. Employment relations were organized around internal labor markets featuring long-term employment and rewards tilted to organizational criteria like internal equity and seniority. Associated with the J-firm pattern was a strong central HR department, which acted as a balancing wheel between governance, strategy, and employment. By contrast, in the United States during the 1980s, the typical pattern – the “US firm” – had shareholder-oriented corporate governance and market-oriented employment policies. HR units at headquarters tended to be relatively weak and overshadowed by the finance function.

What happened to these national patterns as globalization intensified in the 1990s? According to some observers, the J-firm came under pressure from foreign investors and from economic problems in Japan, causing a shift in corporate governance, strategy, and employment relations towards a U.S. pattern (Katz 2003). In the U.S., there was an intensification of an existing tendency to favor shareholders as a result of new ownership patterns, shifting social norms, and weaker unions. One result was for the average large U.S. corporation to move further towards a market orientation in HR strategies and employment relations (Cappelli 1999).

An alternative view, however, is that change was slow in Japan during the 1990s and that the J-firm constellation of variables remained prevalent at the end of the decade (Inagami and RIALS 2000). And an alternative view of the United States is that, although some companies intensified their shareholder and market-orientation, others began to adopt an RBV approach to business strategy, an efficiency-wage type of HR strategy, a mild stakeholder ethos, and organization-oriented employment policies.
Although no longer fashionable to say so, some of these ideas and institutions had Japanese origins, thus suggesting the occurrence of bi-directional convergence.

Our paper seeks to determine the present arrangement of corporate governance, strategy, and employment relations in large Japanese and U.S. companies. We rely on a unique dataset based on surveys of senior HR executives of large public companies in Japan and the United States. The dataset contains measures of HR strategy, corporate governance, employment practices, and other variables. The surveys cover a wide range of organizational issues and were carefully designed for cross-country comparability. In addition to providing information about organizational practices, the dataset contains information on the attitudes and values of senior HR executives, which we think play a mediating role in the way strategy and governance affect employment outcomes.

We present three types of evidence concerning convergence. First, we offer longitudinal data on changes over the past five years in the companies we surveyed as well as changes in the values of Japanese executives based on the replication of a survey done in Japan in 1993. These longitudinal data offer a direct look at convergence. Second, we examine cross-sectional variable means to determine if there are statistically significant differences between Japan and the United States. While this does not directly test for convergence, the assumption is that we would not see statistically significant differences if convergence were extensive.

Finally, we use structural equation modeling (SEM) to compare groups of variables and the relationships among them. Unlike the other two analyses, which compare individual variable levels, these models look at multiple variable relationships – at “structure”. The SEM analyses can tell us whether the J-firm pattern persists in Japan concurrently with an emerging U.S. model and, for the United States, it can show whether the idealized US-firm model exists and also whether there is evidence of an emerging J-firm model. To date, these issues have not been addressed in a rigorous fashion. Again, while the SEM analyses are based on cross-sectional data, the inference is that the presence (or absence) of a U.S. model in Japan or of a Japanese model in the U.S. would be consistent with the presence (or absence) of convergence.

To preview our results, we find evidence both to support and to challenge the notion of business-system convergence. The longitudinal data show Japan and the United States moving in the same direction, although at different rates. Perhaps because of this difference in change rates, cross-sectional national means remain significantly different. Finally, while the SEM analyses show some similarities in structural
relationships between Japan and the United States (including the existence of a J-firm tendency in the United States), the U.S. model is not strongly identified in Japan.

An outline of the paper is as follows: We first discuss the postwar J-firm and US-firm models as they existed in the 1980s and then analyze changes that occurred in the 1990s. This is followed by our three types of data analyses: longitudinal, cross-sectional, and structural equation models. Discussion and conclusions round out the paper.

2. The Japanese Corporation in the 1980s

Japanese corporate governance in the postwar decades was a form of stakeholder capitalism in which, at least until recently, “nobody gives a great deal of thought to owners. Firms are not seen as anybody’s ‘property’. They are organizations – bureaucracies much like public bureaucracies that people join for careers, become members of. They are more like communities.” (Dore 2000: 25; Yoshitomi 1995) The community was run by its board of directors; boards were larger than those of U.S. and British firms, some of them having thirty to forty (or more) members, although usually a subgroup, the management committee headed by the president, made key strategic decisions. The board of directors was composed of incumbent managers who serve staggered terms of two to six years, with at least one director from each major functional department at headquarters as well as from major divisions (Schaeide 1994).

Some observers have argued that, in the past, few Japanese corporations had definable business strategies. Instead, they pursued growth and market share by trying to serve all market segments (Porter, Takeuchi, and Sakakibara 2000). A different view, however, is that Japanese companies did, in fact, have distinctive strategies based on cultivating unique internal competencies and resources. They tended to compete on the basis of these inimitable assets and tacit knowledge, the existence of which was closely related to HR strategies based on efficiency wages and firm-specific human capital, which led to employment practices such as training, rotation, and long-term employment (Itami 1987; Koike 1997). The stakeholder orientation of corporate governance thus supported a resource-based approach to business and HR strategy, and these in turn affected employment practices, as shown in Figure 1.

To oversee their human-resource activities, large Japanese companies had sizeable headquarters HR units, more than twice as large as their U.S. counterparts (staff per employee) and with a reputation for being quite powerful (Inohara 1990: 7). HR units managed the training, development, and promotion of an employee’s “lifetime” career, making for an association between internal labor markets and centralization (see Figure 1). Headquarters HR units also consulted with ubiquitous enterprise unions and
presented labor’s views to the board of directors via the corporate director representing the HR function. Within Japanese companies, HR had the reputation of being a “kingmaker” because of its control over managerial rotations and the selection of senior executives (Itoh 1994). An oft-cited symbol of HR’s power were the performance dossiers kept on every employee in the company, from the president down to the lowest ranking employee. Although decisions on who would be promoted to the top strata of the company – including board membership – were made by the company president, typically the president consulted the senior HR executive when vetting individuals for these positions. Thus HR’s kingmaking role was related to corporate governance: By socializing managers to a company perspective and selecting the best managers to govern the community, the HR unit insured that the company would be in the hands of those who were broadly knowledgeable about the company and had shown themselves to possess traits necessary for a fiduciary role, such as honesty and commitment (Kono 1984).

The power of the headquarters HR units also stemmed from the business and HR strategies of Japanese corporations. In the 1980s, over three-fourths of large U.S. companies had adopted the decentralized M-form structure but many large Japanese companies (around 50 percent) still had a functional or U-form structure in which sales, purchasing, accounting, planning, HR, and other staff responsibilities are centralized at headquarters (Fruin 1994: 220). Even companies with the M-form structure had fewer divisions and less unrelated diversification than comparable M-form companies in the United States (Kagono, Nonaka, Sakakibara, Sakamoto, and Johnson 1985: 40). The role of headquarters was to achieve synergy across units of the company, especially through the mobilization of intangible corporate resources. This led to HR strategies based on highly-trained and centrally allocated employees (Kono 1999).

The same factors that boosted HR’s status also made for relatively weak finance departments. Because corporate divisions were closely related in terms of technology and markets, and because of long-term employment and managerial rotation, senior Japanese executives tended to be well-rounded and did not depend heavily on financial criteria for decision-making (Imai and Itami 1984; Morishima 1998).
Figure 1
Ideal-Type Japanese firm in the 1980s (Stakeholder Model)
Thus, we can model the large Japanese corporation of the 1980s as shown in Figure 1. There was a positive association between HR strategy and corporate governance, and these factors influenced employment practices (internal labor markets) and the centralization of the HR function. Also, stakeholder corporate governance was positively associated with the HR function possessing both influence over executive decisions and power as compared to other corporate functions.

Also, we hypothesize that the impact of governance and strategy on employment outcomes was mediated by the values held by the company’s executives: whether to be relatively employee-oriented (e.g., concerned about employee morale) or finance-oriented (e.g., concerned about share price). There was an alignment between HR strategy, stakeholder governance, and values such that senior executives with employee-oriented values were associated with strong internal markets and a centralized approach to managing employment. Alignment developed as a result of internal socialization of executives – via lifetime careers – and possibly as a result of previous membership in, and accommodation with, enterprise unions (Beck and Beck 1994; Gordon 1998). Finally, we hypothesize that there was also a direct, positive relationship between internal labor markets and HR centralization.

3. The U.S. Corporation in the 1980s

Although there was a time in the 1950s and 1960s when some large U.S. companies operated according to a weak stakeholder approach to corporate governance (Sutton, Harris, Kaysen, and Tobin 1956), that approach began to break down in the 1970s as shareholders – especially large institutional investors – became more assertive of their rights. Corporate law had always insisted that boards had a fiduciary responsibility only to shareholders, and shareholders increasingly pressed boards to restructure companies and squeeze more “value” out of them (Blair 1995). A growing “market for corporate control” emerged in the 1980s, as evidenced by a wave of mergers and hostile acquisitions; this activity was facilitated by the development of new financial instruments such as junk bonds.

Business strategy in U.S. companies was typically focused on market strategies such as product differentiation and barriers to entry, with little attention to HR strategy other than a concern to minimize labor costs and dependence on employees (Porter 1980). Turnover rates in the 1950s and 1960s were considerably higher than in Europe or Japan (OECD 1965). As pressure from shareholders increased in the 1980s, companies increasingly began to focus on reducing labor costs. With companies taking on more risk to satisfy shareholder demands for higher returns, they transferred that risk
to employees. There was a wave of layoffs in the 1980s and early 1990s, even in companies that were relatively profitable (Coffee 1988; Kletzer 1998).

During the 1950s and 1960s, senior HR executives were less powerful in the United States than in Japan, and this was true of the 1980s as well. HR tended to be low man – and not infrequently woman (a signal of the function’s low status) – in the corporate hierarchy. At the executive level, HR managers were accused of being too “soft” and not enough of a team player with other executives (Ritzer and Trice 1969).

By the 1980s, the M-form model, which facilitated corporate diversification and decentralization, was well established in the United States (Chandler 1962). The M-form brought to ascendance the corporate finance function, which increasingly came into conflict with HR. A substantial number of CEOs now came out of finance instead of production. Financial criteria grew more important for determining the internal allocation of capital and the acquisition of business units (Fliqstein 1987). Lacking quantitative indicators to demonstrate their contributions, HR executives reported that they had more conflict with finance departments than any other functional unit. From HR’s perspective, the problem was that “In top management about the only thing that counts is finance” (McFarland 1962: 63).

One way HR executives sought to boost their status in the United States was through professionalization, including the creation of professional organizations, certification, and the like (Baron, Dobbin, and Jennings 1986). Also, the spread of the behavioral sciences in human resource management – in selection, attitude surveys, executive development, and other areas – helped to raise HR’s status by linking it to university-based scientific research (Rush 1969). Finally, familiarity with the details of government employment laws – which proliferated in the 1960s and 1970s – also helped to legitimize the HR function (Dobbin and Sutton 1998). But things went from bad to worse for HR in the 1980s as government’s role shrank and corporate governance became more focused on shareholders. In addition to downsizing, companies decentralized their operations so as to put business units closer to the market and reduce their dependence on, and the size of, corporate headquarters (Kramer 1999). Headquarters HR departments found themselves a primary target of efforts to outsource and get rid of headquarters “bureaucracy”. The net result was a shrinkage in HR staffs and in the ratio of HR staff to employees (Mitchell 2003).

We can model the U.S. corporation of the 1980s as shown in Figure 2: Shareholder-oriented governance and an HR strategy based on market wages and high turnover were positively associated with each other and were negatively related to internal labor markets and to HR centralization. Also, stakeholder corporate governance was negatively associated with the HR function having influence over key
corporate decisions as well as power relative to other functions. As in Japan, we hypothesize that the impact of governance and strategy on employment outcomes was mediated by the values held by the company’s executives. There was a positive alignment between market-oriented HR strategy, shareholder governance, and finance-oriented values. Top executives aligned their values to those considered important by the board of directors (Agle, Mitchell, and Sonnenfeld 1999). Senior executives with finance-oriented values rejected internal labor markets and a centralized approach to managing employment. Companies tended to select senior executives with congruent values because these individuals were more committed to executing strategy effectively. Finally, as in Japan, we hypothesize that there was a positive relationship between internal labor markets and HR centralization.

Figure 2
Ideal-Type U.S. Firm in the 1980s (Shareholder Model)
4. Changes in the 1990s

4.1 Japan

Corporate governance is changing in Japan, partly in response to domestic pressures – such as the unwinding of shares held by banks – and partly in response to demands from foreign investors that Japanese companies adopt shareholder-oriented practices such as stock options and independent boards of directors. In the late 1990s, Sony, a bellwether company, created the so-called corporate officer system, whereby it substantially shrank its board of directors while adding outside directors to it. In most companies with the corporate officer system, the HR executive no longer serves on the board and the “insider” perspective is being diluted by outsiders. At the same time there have been numerous legal reforms to accommodate a shareholder-oriented approach to corporate governance (Araki 2000; Inagami 2001). On the other hand, there is also evidence that corporate governance practices are changing at a rather sluggish pace (Ahmadjian 2002).

Other factors that gave Japan a distinctive approach to employment relations also are eroding. In the area of HR strategy, Japanese companies are becoming more commodity-oriented, as evidenced by “hollowing out” (the transfer of production jobs to Asia), layoffs and pay cuts, and heavier reliance on temporary and part-time employees. Budgets for employee training and welfare expenditures, previously a justification for HR centralization, are being cut. Finance-oriented values are on the ascendant and with this is coming more market-oriented employment practices (Abe 2002). What remains unclear is the degree to which the “lifetime” employment system is being dismantled or whether recent changes represent an attempt to preserve a shrinking “core” of permanent employees by subsidizing its cost with more transient and lower-paid labor (JIL 2002; Kato 2001). Also unclear is whether changes in HR strategy are being driven by new approaches to business strategy such as a shift in relative emphasis from product differentiation and quality to price. How these changes are affecting the values of senior executives also is unclear. It could be that executives are experiencing role conflict, such that their employee-oriented values are lagging behind the emergence of a new finance-oriented corporate model. Alternatively, it may be the case that values are realigning to fit new governance and strategy patterns.

In short, the evidence is consistent with the possibility that some large Japanese companies are realigning strategy, governance, employment practices, and the HR executive role away from the J-model and moving closer to the U.S. model shown in Figure 2. On the other hand, there is also evidence indicating that the postwar Japanese model – shown in Figure 1 – continues to exist in other Japanese companies. Hence the
structure we will estimate in our SEM analyses is the one shown in Figure 3, which tests for the concurrent existence of both models in Japan.

Figure 3
Theoretical Model
4.2 United States

In the area of corporate governance, many large U.S. corporations of the 1990s continued on the trajectory established in the 1980s: an ever-stronger emphasis on shareholder concerns. As evidence of this, consider the growth of stock options, which are regarded as a way of aligning management with shareholders. While fewer than a third of CEOs received options in 1980, fifteen years later nearly all did. During that period, the share of CEO pay deriving from options rose steadily, eventually overtaking base salary as the largest single component of executive compensation. A growing share of the compensation of many others on the company payroll, not only CEOs, also is now tied to options (Cassidy 2002; Bebchuk, Fried, and Walker 2002).

In the employment sphere, some observers contend that jobs at large corporations became ever-more unstable, transient, and market-oriented in the 1990s. This development was said to be driven by a shift to a commodity-type HR strategy on the part of U.S. companies (Cappelli 1999). As for HR executives, they struggled with their values and organizational role. Some rejected operational responsibilities in favor of focusing on executive and strategic issues. This required either outsourcing HR activities or giving greater responsibilities to line managers, who are closest to the market. The result was a smaller headquarters HR unit and the adoption of a “business partner” role, which means no longer “pacifying disgruntled employees [but] consulting with internal customers” (Csoka 1995: 31) and aligning with the dominant finance-oriented ethos.

Yet there are also signs of a countervailing movement among some U.S. companies: the adoption of a resource-based view (RBV) of business strategy in which companies focus on their core competence. For HR strategy, this means a shift to viewing employees as assets instead of commodities (Wright, Dunford, and Snell 2001; Huselid 1995). Data from the U.S. automobile industry confirm a shift from a “Fordist” system to a resource-based approach (Lieberman and Dhawan 2001). In autos as well as other manufacturing industries, there is evidence that firms are utilizing innovations such as employee teams, quality circles, job rotation, high levels of training, and other so-called “high performance work practices” (Applebaum, Bailey, Berg, and Kalleberg 2000). In the service and technology sectors there is explicit recognition of the contribution of intellectual capital and training to competitive success (Sullivan 1998). In some instances, the roots of these ideas can be traced to Japanese ideas on strategy and to Japanese business practices (Cole 1999).

There is also evidence that changes in strategy are affecting the HR executive role. Increasingly HR executives emphasize the need to develop and conserve intellectual capital, to develop distinctive organizational cultures, and to foster high-
commitment employment practices. New conceptions of business and HR strategy mean that employees – and the HR function itself – can be construed not as cost burdens but as sources of competitive advantage. In theory, at least, headquarters HR then becomes responsible for creating a corporate culture that encourages employee commitment; for monitoring line management to insure that employees are being fairly treated; and for developing policies to support strategy, as in the link between employee retention and customer satisfaction (Ulrich 1997).

Thus, as in Japan, there appears to be a realignment of strategy on the one hand, and employment and the HR executive role, on the other, such that some U.S. corporations which previously followed the U.S.-model are adopting the Japanese model shown in Figure 1. On the other hand, there is also corroborating evidence indicating that the traditional U.S. model shown in Figure 2 continues to exist in many U.S. companies. We believe that executive values still play a mediating role. For example, a recent study finds a rising number of managers in charge of healthcare benefits – traditionally an HR responsibility – now have finance, rather than HR, backgrounds. The managers with HR backgrounds care more about employee retention and are employee-oriented; those with finance backgrounds are more cost- and shareholder-oriented (Briscoe, Maxwell, and Temin 2002).

There are, however, at least two differences between Japan and the United States. First, although there is evidence of more internally-oriented business and HR strategies in the United States, there is but modest evidence that corporate governance is shifting in a stakeholder direction. Boards remain composed of outsiders and aligned to shareholders. Few companies give more than lip service to a stakeholder ethos, although some take seriously their environmental responsibilities (O’Connor 2000). Another exception is the growth of employee ownership via stock options and other forms of profit sharing, which some observers interpret as portending a shift in corporate governance (Blasi, Kruse, and Bernstein 2003).

The other difference concerns changes in reporting relationships for HR executives. In large Japanese companies, there is a standard way of organizing the HR function with respect to the reporting relationships of its senior executives. But in the United States, reporting relationships have been changing. According to our 2001 data, 65 percent of senior HR executives in large U.S. companies now report to the CEO, which is a major change since 1977, when only 30 percent of senior HR executives were CEO reports (Janger 1977: 37). There are two alternative interpretations of this development. On the one hand, CEO reporting could be consistent with a shareholder-oriented ethos and a commodification of employment because in the same period that CEO reporting became more prevalent the role of the CEO also changed. CEOs during
these years increasingly were outsiders selected by company boards for their allegiance to shareholders and their willingness to slash payrolls (Khurana 2002). Alternatively, CEO reporting is also consistent with a drift towards a stakeholder approach, in which HR executives are on the same level as CFOs and able to challenge a purely financial approach to management (Price and Walker 1999). We don’t take a position on this issue. Rather, we hypothesize that, whichever view is correct, CEO reporting is likely to mean a boost in the power and strategic influence of the headquarters HR unit, as shown in Figure 3. We will return to Figure 3 in our SEM analyses. It represents the baseline model that we will estimate for both Japan and the United States to see if either, neither, or both ideal-type corporate systems can be identified in each country.

5. Survey Design and Data Collection
5.1 Sample and Survey Characteristics

The data used in this study were collected in 2001 from a mail survey of senior HR executives in large public Japanese and U.S. companies. The sampling frame for Japan consisted of 1,008 firms listed on major Japanese stock exchanges for whom the name of the senior HR executive was available from a commercial database. For the U.S. it consisted of 977 companies listed on the New York Stock Exchange for which the names of both the senior human resource executive and the senior finance executive were available in a different commercial database. We specified that the survey be answered by the top senior executive in the company’s headquarters HR unit.

We had usable responses from 229 Japanese companies and from 145 U.S. companies, representing a response rate of 22.7% and 14.5% respectively. While our response rate may seem modest, keep in mind that elite surveys – in this case of senior corporate executives – typically have comparable or lower response rates. To maximize the response rate in this study, we conducted two rounds of mailings in Japan and three in the U.S., supplemented by follow-up telephone calls to non-respondents. While there is the possibility of response bias, we found no difference in the industry distributions of the respondents and non-respondents. For ease of interpretation we decided against using an imputation algorithm for the missing data, and instead used a reduced Japan (U.S.) dataset of 181 (105) observations without missing data.

Measured by employment, the mean (median) firm size in Japan was 5083 (2215); in the United States it was 18259 (5200). The dominant 1-digit sector was manufacturing, which provided 41 percent of respondents in the U.S versus 59 percent in Japan. Average age of the respondents in Japan was 52 versus 48 in the United States. None of the Japanese respondents was female versus 33 percent in the United States.
The survey asked the senior HR executives about various issues including the company’s management structure, the involvement of headquarters in operating and strategic decisions, and relations between HR and other corporate functions. It should be noted that when the surveys were conducted in the first half of 2001, each country was at a different stage of the business cycle. The U.S. was at the tail end of a boom, with low unemployment and lingering concerns about labor shortages, while Japan was entering its second “lost decade,” during which employment and profits grew slowly, or, in some instances, contracted.

Because all of the data on a particular company come from the same respondent, there is the risk of common method variance, which can cause biased results (Conway 2002). However, bias is minimized because our executives are reporting on objective facts (e.g., hiring policy) and not only on their attitudes, although we have not rigorously controlled for common method variance. Our dataset is cross-sectional but it contains several items that ask executives to gauge changes during the previous five years. In addition, we replicated items from a 1993 study of executive values conducted by RENGO’s Research Institute for the Advancement of Living Standards, thus giving an eight-year time frame for analyzing change.

5.2 Variables

In this section we explain how we measured the variables. The descriptions of the variables are organized according to whether they are independent, mediating, or dependent variables in the SEM analyses.

5.2.1 Independent Variables

**HR strategy: resource-based.** There is no consensus on how to empirically operationalize different types of HR strategy or business strategy. Scholars have resorted to various indirect measures (Lieberman and Dhawan 2001; Helfat 1997). Our approach is in this tradition of using proxy measures. We asked respondents to rate the importance of six criteria in their company’s evaluation of the performance of the headquarters HR function: level of direct and indirect labor costs; revenue or sales per employee; employee attitudes and morale; employee retention; cooperative relations with union; and union avoidance in unorganized facilities. Each indicator is rated on a 5-point scale ranging from 0 (not important) to 4 (very important).

We assumed that companies pursuing a resource-based HR strategy would give priority to evaluation criteria that incorporated the belief that employees were a key corporate asset. For Japan, we measured a resource-based HR strategy by the average score on the indicators “employee attitudes and morale” and “cooperative relations with
union”, taking into consideration the prevalence of enterprise unions in large Japanese companies. For the U.S., where only a minority of companies has unions (including in our sample), we measured resource-based strategy by the score on the indicator “employee attitudes and morale”.

**HR strategy: commodified.** A different HR strategy is to minimize dependence on employees by commodifying employment (i.e. moving in the direction of a spot market) and rigorously minimizing labor costs. For both Japan and the United States, we measured the degree to which a company’s labor is commodified by assessing the importance of “level of direct and indirect labor costs” and “revenue or sales per employee” as criteria for evaluating the performance of the headquarters HR function. We used the average score of these two indicators on a 5-point scale ranging from 0 (not important) to 4 (very important). We recognize the possibility that companies pursuing a resource-based HR strategy may achieve an efficiency-wage effect by internally segmenting their workforce and treating some workers (“core” employees) as assets and other workers (temporary, part-time, outsourced) as commodities. In this case, different HR strategies would be complements instead of substitutes (Ko 2003).

**Corporate governance: stakeholder.** Our method for assessing the strength of stakeholder corporate governance was to measure the number of members of a company’s board of directors who have prior managerial experience in the HR area. While this is an indirect measure, it has the virtue of being objective and scalable. It is based on the assumption that companies which value employees as stakeholders will prefer to have individuals on their boards who are able to provide the employees’ perspective on major business decisions. In Germany, this would occur via designated employee representatives. In Japan and the United States, where there are no designated employee representatives on company boards, we hypothesize that persons with a background in HR are sensitive to employee views and will present them to the board (Post and Preston 2002).

**Corporate governance: shareholder.** In Japan, the strength of shareholder corporate governance is measured by the adoption of the corporate officer system, which we code as 0 (J-model firms) or 1 (shareholder-oriented firms). In the United States, we take a different approach and measure the strength of a shareholder orientation by the use of stock options in the compensation of managers. Companies that did not use stock options were coded as 0 and those that offered stock options to at least some of their managers were coded as 1. We experimented with the stock option measure for Japan but it had less explanatory power than the corporate officer system, perhaps because use of options remains relatively uncommon in Japan.
5.2.2 Mediating Variables

Executive values: employee-oriented. We distinguish executive values that are relatively employee-oriented versus those that are relatively finance-oriented. As noted, we see these values as mediating the relationship between governance and strategy on the one hand and corporate outcomes on the other (Aguilera and Jackson 2003). To assess values, we asked executives to rate on a 4-point scale (1 – not important, 4 – most important) the importance of various issues and concerns in their job. We defined employee-oriented values as the sum of scores on three items: safeguarding employees’ jobs, improving employee morale, and insuring that employees are treated fairly by line and senior managers.

Executive values: finance-oriented. Using the same rating scale, we measured finance-oriented values as the sum of scores on the following three items: helping to raise shareholder dividends, increasing the firm’s share price value, and boosting the firm’s market share.

5.2.3 Dependent Variables

Internal labor markets. As previously discussed, we hypothesize that internal labor markets (ILMs) are associated with resource-based HR strategies and treating employees as stakeholders. We measured the strength of ILMs in each company by examining its policies for filling vacancies for managerial and for non-supervisory employees: whether they consider internal candidates only (coded as 2), give first priority to internal candidates and recruit outside only when needed (coded as 1), consider both internal and external candidates (coded as 0), or prefer recruiting external candidates (coded as -2). The ILM index is the sum of the measures for managerial positions and non-supervisory positions respectively.

HR centralization. We assessed the degree to which operating authority over HR activities is centralized at the headquarters HR unit by asking respondents the percentage of responsibility assumed by different levels (line managers, unit HR department, divisional HR department, and headquarters HR department) for five HR activities: employee participation plans, policies toward unions, decisions on business unit headcount, job assignment of managers, and performance evaluation of managers. The mean percentage given for the headquarters HR department over the five activities was used as the indicator of headquarters HR’s operating authority or centralization.

HR influence. HR’s influence is measured by the extent of HR’s involvement in two key decisions: the selection and remuneration of senior executives, and the allocation of payroll budgets across divisions. We asked respondents what role they played in these decisions, whether to provide information, and/ or to offer advice, and/
or take part in the final decision. For both sets of strategic decisions, 1 point is given for providing information, 2 points for offering advice, and 3 points for taking part in the final decision, with the total ranging from 0-12 points.

HR relative power. We asked respondents to indicate the relative power to affect decisions at the headquarters level of the following departments: finance, HR, marketing/ sales, production, planning, and R&D, using a scale of 1 to 10. We then rank the departments according to the rating (using mid-rank when there is a tie) and transform the rank to a relative rank by scaling the highest-ranked department to have a relative rank of 1 and the lowest-ranked department to have a relative rank of 0. HR power is measured by the relative rank of HR among the rated headquarters departments (Perrow 1970).

6. Results

6.1 Longitudinal Data

Table 1 shows changes in the size of headquarters HR units in Japan and the United States during the period 1996-2001. Most of the Japanese companies in our sample experienced flat or declining employment during this period, while cutting the number of headquarters HR staff. As a result, the number of staff per employee fell from 1 for every 106 employees in 1996 to 1 for every 129 employees in 2001. Conversely, most of the U.S. companies in our sample experienced employment growth during this period and added modestly to their headquarters HR staff. However, the rate of staff growth was much lower than the rate of employment growth, so that the ratio of staff per employee actually declined from 1996 to 2001. Hence one can interpret Table 1 as supporting convergence (the percentage change in staff) or as inconsistent with convergence (because the Japan-U.S. gap in staff-per-employee widened during the period).

Table 1
Change in Size of Headquarters HR Units

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% change in number of headquarters HR staff</td>
<td>Number of headquarters HR staff per employee</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>-22</td>
<td>1/ 106</td>
<td>1/ 129</td>
</tr>
<tr>
<td>U.S.</td>
<td>4</td>
<td>1/ 144</td>
<td>1/ 185</td>
</tr>
</tbody>
</table>

The HR function’s relative share of total headquarters staff also is of interest, so we asked respondents to tell us whether this share had decreased, stayed the same, or increased during the period 1996-2001, as shown in Table 2. Again, evidence relevant
to convergence is mixed. On the one hand, U.S. respondents were much more likely than their Japanese counterparts to say that HR’s share of headquarters staff had grown larger. On the other hand, a large proportion of U.S. respondents reported that HR’s relative share of headquarters staff was declining, this despite the fact that in most of these companies employment was increasing during this period.

Table 2
Change in HR’s Share of Headquarters Employment

<table>
<thead>
<tr>
<th></th>
<th>1996-2001 (% of companies)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Smaller</td>
</tr>
<tr>
<td>Japan</td>
<td>47</td>
</tr>
<tr>
<td>U.S.</td>
<td>40</td>
</tr>
</tbody>
</table>

We gave respondents a list of headquarters functions (finance, HR, marketing/sales, planning, production, R&D, other) and asked – for each function – whether it had gained or lost power to influence strategic decisions during the previous five years. In Table 3 we present the top three “gainers” of power among the headquarters functions. In Japan, despite cuts in HR staff, HR ranked second (40 percent) – behind the planning department – in the percentage of respondents saying that it had gained power during the previous five years. Finance was ranked third. In the United States, the HR respondents were overwhelming in their claim that HR gained power (77 percent), followed by finance and planning. One can interpret these findings as supportive of convergence as U.S. HR executives judge themselves as gaining power more rapidly than their Japanese counterparts.

Table 3
Change in Strategic Influence

<table>
<thead>
<tr>
<th></th>
<th>1996-2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Function gaining power</td>
</tr>
<tr>
<td>Japan</td>
<td>Planning</td>
</tr>
<tr>
<td></td>
<td>HR</td>
</tr>
<tr>
<td></td>
<td>Finance</td>
</tr>
<tr>
<td>U.S.</td>
<td>HR</td>
</tr>
<tr>
<td></td>
<td>Finance</td>
</tr>
<tr>
<td></td>
<td>Planning</td>
</tr>
</tbody>
</table>
We asked respondents to evaluate changes over time in line manager involvement in personnel decisions: performance evaluation and job assignment of managers, control over employee participation, decisions on headcount, and policies toward unions. We view line manager involvement as a proxy for a decentralized, market-oriented approach to employment. As shown in Table 4, the strongest tendency in both countries is to say that there was no change in line involvement during 1996-2001 period. However, U.S. executives were more likely than Japanese executives to report an increase of line involvement in every category of decision with the exception of union policies. The finding suggests that, although there is decentralization in both countries, the United States is decentralizing more rapidly. Given the likely fact that U.S. firms were more decentralized to begin with, the finding suggests a widening of the central-tendency gap between Japanese and U.S. companies, even though at the margin they are moving in the same direction.

Table 4
Change in Line Involvement

|                                      | 1996-2001 (% of companies) |
|                                      | Increased | Same | Decreased |
|                                      | Japan  | U.S. | Japan | U.S. | Japan | U.S. |
| Performance evaluation of managers   | 39     | 53   | 57    | 43   | 4     | 4    |
| Job assignment of managers           | 29     | 40   | 63    | 52   | 8     | 7    |
| Introduce or modify participation plans | 23     | 44   | 66    | 52   | 11    | 4    |
| Decisions on business unit headcount | 21     | 46   | 72    | 46   | 8     | 8    |
| Develop policies toward unions       | 18     | 15   | 75    | 76   | 6     | 9    |

Finally, we replicated items from a 1993 survey of Japanese directors that asked respondents to judge what was important to them in their jobs on a scale of 1 to 4, with 4 being most important. As shown in Table 5, our data are limited to HR executives whereas the earlier data are for board members regardless of function. One might expect the latter group to be slightly more “pro-shareholder” than the HR executives. Hence the increase in importance accorded to share price (line 2) and the decrease in importance attached to safeguarding employee jobs (line 5) may be understated. Nevertheless, what is striking about Table 5 is the small magnitude of the absolute and relative changes in Japanese executive values between 1993 and 2001. Safeguarding employee jobs remains far and away of great importance as compared to share price (or
dividends or market share, which have declined in importance) and also as compared to the values of U.S. executives, for whom dividends, share price, and market share are more important than safeguarding jobs. In short, attitudinal convergence may be occurring but the evidence for it in Table 5 is quite weak.

Table 5
Executive Values in Japan and the U.S. a

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Raising dividends</td>
<td>2.6</td>
<td>2.2</td>
<td>2.6</td>
</tr>
<tr>
<td>Share price</td>
<td>2.0</td>
<td>2.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Market share</td>
<td>2.9</td>
<td>2.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Diversify &amp; expand into new markets</td>
<td>2.9</td>
<td>2.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Safeguard employees’ jobs</td>
<td>3.3</td>
<td>3.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Increase number of management positions</td>
<td>1.3</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Increase my department’s budget</td>
<td>1.5</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Coordinate with other departments</td>
<td>2.4</td>
<td>2.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Make contribution to society</td>
<td>2.6</td>
<td>2.5</td>
<td>2.4</td>
</tr>
</tbody>
</table>

a “What is important to you in your job?” 1=not important, 4= most important
b 1993 data courtesy of Fujikazu Suzuki, RENGO Research Institute for Advancement of Living Standards (RIALS), Tokyo.

6.2 Cross-Sectional Data

Next we compare national variable means as an indirect measure of convergence. If there had been substantial convergence, variable means would not be significantly different between Japan and the United States (The variables analyzed are the same as those used in our SEM analyses discussed in the next section).

Table 6 reports the means, standard deviations, and correlation coefficients of the variables. Summary statistics for Japan are shown below the diagonal and those for the U.S., above the diagonal.
Table 6
Variable Means, Standard Deviations, and Correlations a

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>US Mean</th>
<th>US s.d.</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR strategy: resource-based</td>
<td>-.05</td>
<td>- .25*</td>
<td>-.07</td>
<td>.07</td>
<td>-.16*</td>
<td>-.01</td>
<td>.10</td>
<td>-.07</td>
<td>3.09</td>
<td>0.89</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR strategy: commodified</td>
<td>.22**</td>
<td>.13</td>
<td>-.02</td>
<td>-.00</td>
<td>.15*</td>
<td>.17**</td>
<td>.02</td>
<td>.13</td>
<td>.08</td>
<td>.04</td>
<td>2.11</td>
<td>0.90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate governance: stakeholder</td>
<td>.11</td>
<td>-.04</td>
<td>- .08</td>
<td>-.05</td>
<td>.07</td>
<td>.17**</td>
<td>-.11</td>
<td>-.10</td>
<td>-.13</td>
<td>.11</td>
<td>.49</td>
<td>.81</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate governance: shareholder (Japan)</td>
<td>-.07</td>
<td>.08</td>
<td>-.09</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate governance: shareholder (U.S.)</td>
<td>-.26***</td>
<td>.04</td>
<td>-.07</td>
<td>.26***</td>
<td>.21*</td>
<td>.17**</td>
<td>-.08</td>
<td>-.05</td>
<td>.07</td>
<td>.08</td>
<td>.05</td>
<td>.98</td>
<td>.14</td>
<td></td>
</tr>
<tr>
<td>Executive values: employee-oriented</td>
<td>.24**</td>
<td>.10</td>
<td>-.04</td>
<td>-.02</td>
<td>-.08</td>
<td>.15</td>
<td>.19*</td>
<td>-.08</td>
<td>-.02</td>
<td>-.10</td>
<td>-.14</td>
<td>8.80</td>
<td>1.50</td>
<td></td>
</tr>
<tr>
<td>Executive values: finance-oriented</td>
<td>.09</td>
<td>.15*</td>
<td>-.01</td>
<td>.03</td>
<td>.11</td>
<td>.04</td>
<td>-.09</td>
<td>-.08</td>
<td>.15</td>
<td>.05</td>
<td>-.03</td>
<td>8.76</td>
<td>2.23</td>
<td></td>
</tr>
<tr>
<td>Internal labor markets</td>
<td>.16*</td>
<td>.08</td>
<td>-.05</td>
<td>-.01</td>
<td>-.07</td>
<td>-.03</td>
<td>-.13</td>
<td>.17**</td>
<td>.08</td>
<td>.02</td>
<td>1.02</td>
<td>.09</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR centralization</td>
<td>-.02</td>
<td>.05</td>
<td>-.08</td>
<td>-.20*</td>
<td>-.15*</td>
<td>-.15*</td>
<td>.13**</td>
<td>.16*</td>
<td>.01</td>
<td>.05</td>
<td>-.10</td>
<td>28.5</td>
<td>21.6</td>
<td></td>
</tr>
<tr>
<td>HR influence</td>
<td>.08</td>
<td>.09</td>
<td>-.08</td>
<td>-.01</td>
<td>-.03</td>
<td>-.02</td>
<td>.12**</td>
<td>.05</td>
<td>.03</td>
<td>.21*</td>
<td>.13</td>
<td>5.17</td>
<td>2.21</td>
<td></td>
</tr>
<tr>
<td>HR relative power</td>
<td>.09</td>
<td>-.10</td>
<td>.19**</td>
<td>.05</td>
<td>-.02</td>
<td>-.06</td>
<td>.08</td>
<td>.06</td>
<td>-.07</td>
<td>.19*</td>
<td>.35</td>
<td>.30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reporting to CEO (U.S.)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.66</td>
<td>0.48</td>
</tr>
</tbody>
</table>

| Japan Mean | 3.52| 3.05| 1.67| 0.29| 0.17| 9.82| 6.72| 2.40| 48.8| 6.45| 0.41| - |         |         |
| Japan s.d. | 0.61| 0.79| 1.71| 0.45| 0.38| 1.37| 2.06| 1.10| 18.3| 2.22| 0.27| - |         |         |

*a Statistics for Japan shown below the diagonal and those for the U.S. above the diagonal.

n (Japan) = 181, n (U.S.) = 105.

† p < .10; * p < .05; ** p < .01; *** p < .001

We ran two-tailed t-tests with unequal variances to see whether there are significant differences between the Japan and U.S. sample means. The means of the variables are significantly different at the .0001 level, with the exception of the HR power variable, which is significant at the .15 level.

Note that the variable means are as one would predict, with Japanese firms scoring more highly on resource-based HR strategies, employee-oriented executive values, the ILM index, and on HR centralization, HR influence, and HR relative power. Conversely, the U.S. firms score more highly on finance-oriented executive values. Indeed, the raw data show that the most powerful department in the United States was finance with HR ranked fifth, whereas in Japan, the top departments were planning and marketing, with HR and finance tied for third. Thus the national averages reflect the dominance of the resource-based, stakeholder, and strong-HR model in Japan, and of the shareholder-oriented and weak-HR model in the United States. These findings are consistent with non-convergence of corporate systems, although it is possible that variable means were more disparate in the past than now.
The odd exception here is that Japanese companies score more highly on commodified HR strategies (that is, they are more concerned with reducing labor costs) than U.S. firms. One interpretation of this finding is that Japanese companies are trying to preserve a high-wage, stable-employment core by internally segmenting their workforces and expanding the number of contingent and overseas employees. Hence they are pursuing both resource-based and commodified labor strategies. Another interpretation is cyclical: the relative emphasis on cost-cutting in Japan is due to the effect of the prolonged recession in Japan and also to the fact that the survey was conducted at the tail end of the U.S. stock-market bubble, when costs were of secondary concern in many U.S. companies.

6.3 Structural Equation Modeling Analyses

Structural equation modeling (SEM) is an extension of the general linear model of which multiple regression is a part. SEM serves purposes similar to multiple regression, but is a more powerful alternative that can accommodate the modeling of correlated independent variables, measurement errors, and multiple dependent variables, among other complexities. Advantages of SEM compared to multiple regression include the desirability of testing overall models rather than individual coefficients, the ability to test models with multiple dependent variables, and the ability to model mediating variables. While some of these features can be adapted to a multiple regression framework, SEM is able to handle all of them simultaneously. Given the complexity and interdependencies of various aspects of corporate organization, SEM is particularly suited to our data analyses.

We use the statistical software “EQS” to estimate our structural equation models. For both the Japan and U.S. datasets, the parameter estimates obtained by using maximum-likelihood (ML) estimation would be biased due to excessive multivariate kurtosis. To deal with this problem we fit the models using robust ML methods and corrected for kurtosis using the Satorra-Bentler method (Satorra and Bentler 1988). For each country, the sample size is large enough to allow for reliable parameter estimates and significance tests for models of the size depicted in Figure 3 (Kline 1998).

In what follows, we first present overall fit information for the concurrent existence of two models in contemporary Japan: the postwar model and the U.S.-style model. Next we present our results on specific path relationships. Then we follow the same procedure for the United States.
6.3.1 Japan

Fitting the hypothesized two-model structure (Figure 3) to the data yields no clear assessment of fit (Figure 4). The chi-square test for exact fit is significant, ($\chi^2(30df) = 46.07, p=0.031$), making it necessary to rely on the customary indices for fit. Most of them indicate close fit: GFI=.954; SRMR=.066; and RMSEA=.055, with 90 percent confidence interval of (.017, .084). Only the CFI=.622 is below the customary cutoff score (Hu and Bentler 1995).

**Figure 4**  
Parameters for Theoretical Model for Japan

We decided to modify Figure 4 model by removing the shareholder corporate governance variable (corporate officer system), which is not significantly related to any other variable. It may well be that recent changes in Japanese corporate governance
such as the corporate officer system are largely symbolic – intended to signal to foreign investors that management is sensitive to shareholders’ interests – and as yet these changes have not affected fundamental corporate processes. There is evidence that U.S. managers are prone to making symbolic changes in corporate governance to satisfy outside constituents, so it would not be surprising to observe the same behavior in Japan (Westphal and Zajac 1998; Powell and DiMaggio 1983).

Removing this variable, as shown in Figure 5, improves fit to an acceptable level. The chi-square test for exact fit is non-significant (chi-square (25df) = 34.42, \( p = .099 \)), indicating that there is no difference between the data matrix implied by the model and the sample data. All fit indices mirror this improved fit by increasing even further: GFI=.962; SRMR=.063; and RMSEA=.046 with a 90 percent confidence interval of (.000, .080). The CFI is still below the customary cutoff (CFI=.747), but, as all the other fit indices agree in the assessment that this model fits the data well, and more importantly, because of the non-significance of the chi-square test, we feel it is warranted to accept this model as a good representation of the data.

Figure 5
Parameters for Modified Model for Japan

![Diagram of parameters for modified model for Japan]

September 2004
ITEC Research Paper 04-05
p.29
As regards path relationships, the modified Japan model (Figure 5) provides weak support for the existence of a positive relationship between resource-based HR strategy and stakeholder corporate governance. Our hypothesis that there is a positive association between stakeholder corporate governance and HR influence is not supported: the sign is negative. More strongly supported is a significant, positive association between stakeholder corporate governance and the relative power of the headquarters HR function. And stakeholder corporate governance is positively associated with HR executives having employee-oriented values, although the path is not significant. HR executive values are also found to be positively and significantly related to a company’s HR strategy, whether the pairing is between a resource-based strategy and employee-oriented values or between a commodified-labor strategy and finance-oriented values.

As for the paths between executive values and organizational outcomes, the results are mixed. Our hypothesis – that internal labor markets are positively related to employee-oriented values but negatively related to finance-oriented values – came out with the correct signs but neither path was significant. We thought that HR centralization would be positively related to employee-oriented values but, in fact, the observed relationship is negative and significant. And rather than there being a negative association between centralization and finance-oriented values, we found the observed relationship to be positive and significant. Finally, we found, as predicted, that centralization is positively associated with internal labor markets.

Stepping back from the myriad paths, the larger point is this: the postwar J-model continues to exist and there is also evidence consistent with the emergence of a U.S.-style model, although it is weak. We elaborate on these points in our discussion section, but first we turn to the SEM results for the United States.

### 6.3.2 United States

For the U.S. analyses, we added an additional variable that is not contained in the Japanese dataset, Reporting to CEO. The variable distinguishes between HR executives who report to the CEO (coded as 1) and those who do not (coded as 0). Fitting the hypothesized model (Figure 3) to the data yielded a non-significant chi-square (chi-square (38df) = 47.83, \( p = .13 \)) which means there is no difference between the values predicted by this model and the sample data. The conventional fit indices mirror this result: GFI=.922; SRMR=.082; and RMSEA=.050 with a 90 percent confidence interval of (.000, .089). The only outlier, again, is the CFI=.638, but given the result of the chi-square test, the CFI doesn’t affect our judgment that the model is a good representation of the data.
Figure 6
Parameters for Theoretical Model for the U.S.

Figure 6 shows the path estimates for the United States. As in Japan, stakeholder governance is positively but not significantly associated with employee-oriented values, although there is a strong positive relationship between a resource-based HR strategy and employee-oriented values. As for finance-oriented values, as predicted they are strongly related to shareholder corporate governance, which is different from Japan. Also there is a positive relationship between a commodified-labor HR strategy and finance-oriented executive values, as predicted.

However, we found no relationship between a company’s HR strategy and its corporate governance system, whether stakeholder or shareholder. Also, neither of the paths from stakeholder governance to HR influence nor to HR relative power is positive.
Instead, the paths are negative and significant. Nor do we find support for the existence of a negative relationship between shareholder governance on the one hand and HR influence and HR relative power on the other: the paths are positive and significant. We will return to this point.

As for the paths between executive values and organizational outcomes, the results are mixed. As predicted, internal labor markets are positively and significantly related to employee-oriented values but negatively related to finance-oriented values. This is an important finding. However, neither of the paths between values and HR centralization is significant. Unlike Japan, the relationship between internal labor markets and centralization is negative, which is not what we predicted. Finally, in the United States, reporting to the CEO is positively associated with HR influence and with HR relative power, as predicted, and the latter path is significant.

Again, stepping back to see the larger picture, testing the overall fit of the combined model using an SEM approach allows us to assess the degree to which different components of the shareholder and stakeholder models of corporate organization exist in the United States. The strong fit of the SEM is consistent with the concurrent existence of a traditional US-model and of an emerging J-model in U.S. companies.

7. Discussion

The SEM results provide evidence both for supporters and skeptics of the notion that business systems in Japan and the United States are converging. There are two types of evidence relevant to convergence: the similarity of pairwise relationships in our SEM analyses and of the groups of relationships or overall models. Regarding the former, note that in both Japan and the United States, executive values are aligned with HR strategy, which could either be due to companies choosing HR executives with the “right” set of values or to HR executives being sensitive to organizational decisions about how to achieve competitiveness. Second, in both countries HR strategy and corporate governance are not significantly related. It appears to be the case that corporate governance can co-exist with different types of HR strategies, such that there is not a well-defined relationship between them. Third, in both countries the HR executive’s values are related to the strength of internal labor markets. HR executives with employee-oriented (finance-oriented) values tend to be found in companies with relatively strong (weak) internal labor markets. However, while the paths have the correct signs, they are, with one exception, not significant.

Earlier we posited that there were different models for organizing the corporation: the J-model of the resource-based/ stakeholder corporation and the U.S.
model of the commodified-labor/ shareholder corporation. Do these models exist and do they have similar effects in both countries?

In Japan, there is evidence of the continued existence of the postwar resource-based/ stakeholder model, which is associated with HR relative power and with internal labor markets. Evidence for the existence in Japan of a U.S.-style shareholder model is weaker, however. Recall that we removed shareholder governance from our model because it was not significantly related to other variables such as values, influence, and power; this improved our overall fit. There is, however, a set of paths running from a commodified-labor strategy to finance-oriented values to centralization. These paths may constitute an emerging alternative to the postwar Japanese model, one that has not, as yet, affected internal labor markets (at least for core employees). Alternatively, these paths may represent the emergence of a hybrid system in Japan, in which market-oriented employment and shareholder sensitivity are added on to the postwar system of corporate governance, strategy, and employment. (Note that in Japan, as shown in Table 6, commodity- and resource-based strategies are positively and significantly related.) As discussed earlier, this could be evidence of an intensified core-periphery approach inside large Japanese corporations, in which resource-based and commodified HR strategies are pursued as complements rather than substitutes.

Also, note that in Japan, corporate governance is not as strongly associated with values and outcomes as in the United States. For Japan, the association is slightly stronger between strategy and outcomes than between governance and outcomes. Admittedly, this is a thin empirical reed. But it suggests that perhaps too much scholarly and journalistic attention is being devoted these days to changes in Japanese corporate governance (the question of how firms make decisions) and not enough attention is being paid to variations in HR and business strategy (the actual content of those decisions).

Next we turn to the United States, for which the data support the existence of two different corporate models: the traditional U.S. model and something resembling the postwar Japanese model, with its links between resource-based strategy, pro-employee values, and employment security. However our hypothesis that the latter model is positively associated with HR power (as it is in Japan) was wrong. Conversely, our hypothesis that the commodified-labor/ shareholder model is negatively associated with HR power and influence also was wrong. Rather, the association is positive, a finding that lends credence to the claim – which initially we were skeptical about – that the U.S. is developing a “business partner” role for the HR executive based on serving internal customers and a market-based, commodified employment system. HR
executives who adapt to this role by assuming finance-oriented values are able to achieve power and influence within their organizations.

It is unclear, however, why the stakeholder approach is not associated with HR power in the United States. One answer may lie in our data which show that reporting to the CEO, *ceteris paribus*, has a significant positive effect on HR’s strategic influence and relative power. It’s possible that CEO reporting is a more direct route to HR power than the choice of strategy or corporate governance. Khurana (2002) has shown that in the United States during the 1990s, there was a big change in the composition of CEOs, who increasingly were outsiders hired with a mandate to raise shareholder returns and who were incentivized with generous stock options. Additional support for this view comes from a recent study showing that CEO reporting is most prevalent in companies that have restructured themselves by downsizing their middle-management ranks (Rajan and Wulf 2003). Thus having the HR executive report to the CEO may overwhelm any existing stakeholder tendencies. We suspect that this process originates inside U.S. corporate boards, where persons with an HR background are less numerous than in Japan and less likely to challenge the shareholder-sovereignty approach that intensified in the 1990s. Future research in both countries should pay closer attention to the internal dynamics of board decision-making.

8. Conclusions

This paper has analyzed corporate organization in Japan and the United States to determine whether there is evidence of convergence of those systems. We presented longitudinal and cross-sectional data as well as SEM analyses of corporate organization. The results provide evidence for both sides in the convergence debate: those who see an erosion of national systems and those who contend that “varieties of capitalism” remain distinctive.

In support of convergence were the following: a) the longitudinal data show a shrinkage of headquarters HR units in Japan and the growth of HR power in the United States; b) the cross-sectional data confirm the existence of commodified-labor HR strategies in Japan and of resource-based HR strategies in the United States; and c) the SEM analyses are consistent with the existence of a J-model in the United States and also show cross-national similarities in the relationships between variables, such as the alignment of HR executive values with strategy and employment practices.

Clearly, ideas about corporate organization are flowing across national borders, and the flows go in both directions. The Japanese pursuit of commodified-labor strategies is corroborated by news of layoffs and “hollowing out” and may be leading to the emergence of some as-yet-undefined hybrid model. Conversely, some U.S.
companies are pursuing resource-based HR strategies and stakeholder governance, although this is not associated with power for HR executives in the United States as it is in Japan. Thus what we observe is not simply that Japan is becoming more like the United States but that the United States is changing, too. This is bi-directional rather than U.S.-centric convergence and we urge that more attention be paid to flows in both directions.

In support of non-convergence were the following: a) the longitudinal data show the persistence of pro-employee executive values in Japan and a widening of HR centralization and HR staffing ratios between Japan and the United States; b) the cross-sectional data demonstrate statistically significant differences between Japan and the United States in most measures of corporate organization; and c) the SEM results show the structural weakness of the shareholder model in Japan. Also, although there is evidence of a resource-based approach in the United States, it is not the route to executive HR power, as it is in Japan.

One of the barriers to convergence is the difficulty of creating governance forms that can sustain new approaches. In the United States, it is curious that stakeholder governance and a resource-based HR strategy do not reinforce each other and fail to bolster HR power and influence. Others have made the point that an HR strategy based on high human-capital investments is best supported by a stakeholder orientation in corporate governance (Roberts and Van den Steen 2000). As yet this orientation is rather weak in the United States. Although having individuals on corporate boards with HR backgrounds inclines a company in the stakeholder direction, a critical mass does not yet exist on most U.S. boards. The number of such directors is less than one-third of Japanese levels. Recently, the AFL-CIO and shareholder activists like CalPERS have been seeking permission from the Securities Exchange Commission (SEC) to permit shareholders to nominate board directors (Plitch 2003). If successful, this innovation might remove some barriers to a stakeholder orientation. Ironically, this would occur at precisely the same time that Japanese law is changing to facilitate a stronger shareholder orientation in Japan.

Conversely, a barrier to convergence on the Japanese side is the fact that, as yet, most Japanese companies have not financialized their internal decision-making to the same extent as in the United States. Finance departments do not occupy the dominant position that they hold in the United States. The vast majority of Japanese companies have not adopted the corporate officer system and continue to have the HR function represented on their boards. And even some corporate-officer companies still have an HR director or other board members with backgrounds in HR. Contrast this to the United States, where only six of the Fortune 1000 U.S. companies have their own HR
executive on the board of directors, whereas ninety-two companies have their CFO on the board.5

It is impossible to make sense of these impediments to convergence without taking into consideration issues of power, both within and outside the corporation. There is a tradition in organizational research (e.g., Pfeffer 1981) that views differences in corporate organization as being due not only to efficiency considerations but also to contests over the distribution of resources. Functional units inside the firm – such as finance, marketing, and HR – vie for power not only for themselves but as representatives of different groups, such as shareholders, customers, and employees (Freeland 2001).

Paying greater attention to power is important for understanding the varieties of capitalism debate. National models are due, in part, to different allocations of power between stakeholders and these distributions generate distinctive organizational arrangements. Seeing things from a power perspective sensitizes us to the possibility that debates over the relative efficacy of different corporate models are, at a latent level, really disputes over distributional outcomes. We urge other researchers to give more consideration to how corporate organization is affected by power contests within corporations and the societies in which they are embedded. We do not view our research as the final word on this subject but instead see it as a first step toward operationalizing and measuring issues that are being hotly debated – and need more empirical analysis – in both Japan and the United States.
Notes
1. Thanks to Oh Hak-Soo of the Japan Institute of Labor for information on the retail industry.
2. Questionnaires from 103 U.S. firms were returned as undeliverable, usually because the company had merged with another or because the company said that it did not participate in surveys.
3. For symmetry, we coded recruiting external candidates as -2 but it makes no difference to our results if it is coded as -1.
5. Unpublished Korn/Ferry data as of 2002, courtesy of Caroline Nahas. Although much is made of the fact that independent directors are becoming more common in Japan, it is only around one-fourth of Japanese companies that have these directors and more than half of those companies have but one independent director (*Nikkei Weekly* 2003). Again, this suggests the oft-symbolic nature of changes in corporate governance.
References


