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MANAGING INSTITUTIONAL AND CULTURAL CONTRASTS THE CASE OF SANYO ELECTRIC IN THE UNITED STATES

Roger L. M. Dunbar and Suresh Kotha

ABSTRACT

This paper considers some of the issues that a Japanese firm deals with in establishing and then managing a presence in the United States. It highlights how adaptation to the United States involves understanding and responding to both cultural and competitive dynamics. Specifically, the Sanyo case suggests how these conditions co-evolved, interacted, and changed over time. The case also illustrates how foreign firms competing in the United States should not underestimate the importance of cultural and competitive dynamics and how these can co-evolve over time in unmanaged ways. These dynamics, generally not apparent at entry, can and do play an important role as a firm adapts in a foreign setting.

More generally we argue that cross-cultural research needs to explore "phenomenon in the making" in order to understand how adaptation to a foreign setting occurs. A more qualitative approach enables researchers to emphasize the impact of the foreign setting and the process by which a firm constructs a view of itself in an evolving

Advances in International Comparative Management, Volume 13, pages 149-173.

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ISBN: 0-7623-0589-4

world. The paper concludes by discussing possible implications for future research and practice on foreign firms seeking to establish a presence in the United States.

INTRODUCTION

Important differences in social structures and cultural beliefs distinguish Japan and the United States. Their respective governments manage their economies in different ways (Fallows, 1994; Lodge, 1987). Underlying norms and managerial values (Abegglen & Stalk, 1985; Lincoln, Hanada, & Olson, 1981; Ouchi, 1981) differ. As a result, managers rely on contrasting approaches to structure firm work and have different expectations about the management processes (Aoki, 1990; Kotha, Dunbar, & Bird, 1995; Lincoln, Hanada, & McBride, 1986). These differences can lead to contrasts in how business is approached and in how operations are managed (Kagano et al., 1985).

As managers assess financial opportunities in other countries, the potential disruptions that may stem from cultural and management differences can be downplayed or even ignored. Yet such differences can be very important. For example, they may make it difficult for firm managers operating in another country to recognize when, how, and where they should change their approach to maintain success (Murtha & Lenway, 1994). Yet if a firm continues to rely on home country practices not accepted abroad, its managers may inadvertently become involved in unanticipated conflicts and losses (Kogut, 1991).

This paper focuses on Sanyo Electric's efforts to establish a corporate presence in the United States. The study describes how Sanyo entered the United States and established its television and microwave manufacturing facility in Arkansas and then examines various issues that emerged for Sanyo over a decade. It concludes by discussing implications for Japanese managers establishing a corporate presence in the United States.

BACKGROUND LITERATURE

A growing body of research has considered how Japanese firms become established in the United States. The evidence suggests that generally Japanese firms have preferred to establish greenfield subsidiaries rather than acquire established facilities (Hennart & Park, 1994). They may prefer greenfield startups because this choice means they do not have to take over or rely on unknown "foreign" management (Kogut & Singh, 1988). Further, since Japanese managers are in control from the start, the Japanese perceive the venture as less risky (Li, 1995). Cole and Deskins (1988) studied Japanese greenfield automobile startups to identify factors impacting plant location. They concluded that, "Japanese plant sitings [in the auto industry] reflected a pattern in which avoidance of blacks is one factor

in their site location decision" (p. 17, italics in the original), with the NUMMI plant being an important exception.

Japanese electronic firms entering the United States have usually focused exclusively on core businesses where they have an established competitive advantage (Chang, 1995). This is typical of many MNCs that have manufacturing operations overseas and provide their overseas affiliates with technical know-how and firm-specific organizing capabilities (Buckley & Casson, 1976; Caves, 1982). The subsidiary imports the parent's technologies along with experienced firm managers; these managers then implement practices that have proven effective in the home country (Zaheer, 1995).

Other studies have considered how Japanese manufacturing firms manage in the United States after successfully establishing a subsidiary (Cole & Deskins, 1988). Adler (1993), for example, examined the impact of work practices introduced at NUMMI, a joint venture between General Motors and Toyota Corporation. He highlighted how managers were able to develop a social context emphasizing commitment to continuous improvement and an intense focus on standardization. Introducing this new set of cultural beliefs helped NUMMI become highly efficient and learn over time (Brown & Reich, 1989).

In contrast, Milkman (1991) examined the work practices of Japanese manufacturers not involved in the automobile industry. She found that these plants usually employed a few hundred employees to do simple fabricating and assembly work. She noted that so-called "Japanese" organization practices such as emphasis on teamwork, job rotation, cross training, quality circles, and so on were almost nonexistent in these plants. Most did not employ any of the "lean" manufacturing systems such as just-in-time inventory systems used at NUMMI. Instead, the work organization in these plants strongly resembled that of nonunion American firms. She also noted that within these plants, most labor-related decisions were assigned to American human resource executives who advocated policies designed to avoid unionization (see also Beechler & Yang, 1994).

We add to these studies of Japanese adaptation patterns in the United States by examining Sanyo Manufacturing Company. Our purpose is to explore how a Japanese firm adapts to the U.S. environment and works toward overcoming its "liability of foreignness" (Hymer, 1976). Of specific interest is what happens after the Japanese firm has successfully entered the U.S. market and has implemented the parent firm's organizing practices. *How may these operating practices brought from Japan evolve as they are implemented by a U.S. workforce with different beliefs and work expectations?*

MNCs must also find ways to support and maintain the firm-specific competitive advantages and capabilities located in their overseas affiliates (Buckley & Casson, 1976; Caves, 1982; Zaheer, 1995). This becomes an important issue over time since the competitive dynamics of global industries inevitably erode firm-specific advantages. The parent must introduce new capabilities and advantages into the local subsidiary, or the local firm must develop new technical capacities

and advantages to replace the aging ones that served it well in facilitating market entry. This leads to the additional question: *How may changes in competitive global dynamics impact the relationship between Japanese parent firms and their U.S. subsidiaries?*

METHODOLOGY

Our broad purpose is to explore how cultural and competitive dynamics may impact Japanese firms operating in the United States and how these effects evolve over time. To do this, we must rely on case material (Yin, 1994). The present research involves a longitudinal case study of Sanyo Electric, a Japanese firm that started U.S. manufacturing operations in 1977. To understand the context, we describe Sanyo's history before it established itself in the United States and then outline the specific issues Sanyo encountered as it attempted to cope with both U.S. cultural contexts and globally changing competitive conditions.

The processes Sanyo used to establish itself in the United States are necessarily unique, and this raises questions about the extent it is possible to generalize from them. While the specific events are unique to Sanyo, the underlying processes, priorities, and values used to manage them are not, and it is these that provide a basis for generalization (Tsoukas, 1989). The analytical task is to identify these underlying processes, priorities, and values that may have affected how Sanyo adapted, for they may have implications for other firms. The approach should enable us to tease out the multiplicity of factors that may have exerted influence, delineate linkages, and draw implications. A case study approach is well suited for this type of work (Kotha, 1998; Yin, 1994).

We chose Sanyo because it is an example of a firm based in a high-technology industry that had the support of many favorable conditions when it first entered the United States. The Japanese government had supported consumer electronics firms that, like Sanyo, had developed export capabilities to compete against U.S. manufacturers. Sanyo had also built up a mutually beneficial distribution relationship with Sears Corporation. When a government-managed marketing agreement limited television imports but placed no limits on Japanese firms manufacturing televisions in the United States, Sears helped Sanyo establish a manufacturing facility in the United States.

Despite these initially favorable conditions, questions linger about how long sources of competitive advantage will last in a globally competitive market. In the 1980s this became a concern for Sanyo and other industry participants as they faced severe competition that made it necessary to find new ways to compete. These later developments provided an opportunity for us to examine how Sanyo handled adversity. While flexibility is most often needed in times of adversity, differences in cultural values and management beliefs tend to reduce flexibility.

We were interested in how issues reflecting such differences might have arisen for Sanyo.

Data Collection

Following Campbell's (1975) dictum that multiple sources of inference about a phenomenon are analogous to degrees of freedom in statistics, we focused on multiple sources of data, including industry reports, business publications, and interviews. For data on Sanyo's operations in the United States, we identified approximately 40 newspaper and magazine articles in the Nexus/Lexus database that focused on the firm.¹ We drew on case studies of the firm (Hayes & Clark, 1981) and the TV industry (Choate, 1991; Dertouzos, Lester, & Solow, 1989; Porter, 1983). We also drew on a case describing the competitive situation faced by the Consumer Electronics Group of General Electric (Collis, 1988).

By phone, we interviewed Benny Goolsby of the International Union of Electrical Workers in Memphis, who briefed us about the union's relationship with Sanyo and provided material on his union's position in the various disputes. We also interviewed a reporter from the *Daily Times-Herald*, the newspaper in Forrest City, Arkansas that had covered Sanyo's TV manufacturing facility. He provided us with insights into why he thought Sanyo made certain decisions. Data from these different sources gave us a sense for what had happened at the Sanyo plant and the sorts of issues that had arisen. Together, these sources served as the basis for our case study of Sanyo's U.S. operations.

SANYO ELECTRIC CORPORATION

Sanyo Electric is a Japanese electronics firm headquartered in Osaka, Japan. Until the 1970s the firm had no manufacturing facilities in the United States. During the 1960s, however, it exported large numbers of TVs to the United States, to Sears, Roebuck & Co (Sears) in particular. At that time, Sears had a joint television production venture with Warwick Electronics, a subsidiary of the Whirlpool Corporation. It employed as many as 2,500 people in the venture's production facility located in Forrest City, Arkansas. The venture was 25 percent owned by Sears and served as a captive supplier of color TVs.

The Warwick facility found it difficult to meet the new quality and technology standards and the much more competitive prices when Japanese competition arrived in the mid-1960s. As customer returns increased, Sears became dissatisfied with Warwick and turned to Japanese producers to obtain TV sets. Four of the five assembly lines at the Warwick plant had been closed by the early-1970s, and employment had been cut to less than 400 people (Hayes & Clark 1981). Losses mounted to over \$9 million in 1975 on sales of \$71 million as demand ebbed and

employee morale fell. An employee described the Warwick situation as follows (quoted in Hayes & Clark, 1981):

This was really a desolate place.... People were continually being laid off, and the handwriting was on the wall for every one to see. There was no money, so we were letting equipment run down. We were having terrible quality problems and spending nights and weekends reworking sets so that we could keep up with our delivery schedules. The management group was working as hard as it could, and yet things kept getting worse. It was really demoralizing.

The TV Industry

In the 1950s U.S. television technology was state-of-the-art and U.S. manufacturers dominated world output. At the time, U.S. firms were buying cheap TV parts from Japanese partner firms and actively supported these firms in efforts to improve their ability to manufacture TV components (Dertouzos et al., 1989, p. 223). To increase the components the Japanese firms could make, the U.S. firms transferred their monochrome technology to these firms in the 1950s, and then their color technology in the 1960s. They did so because they anticipated that with these increased technology transfers, the range of components their partners could manufacture at low cost would increase still further. The goal from the standpoint of the U.S. manufacturers was to decrease costs (Porter, 1983).

In 1956 the fledgling Japanese television manufacturers formed the Home Electronic Appliance Market Stabilization Council. The council promoted Japanese TV producer growth and set minimum price levels for televisions designated for domestic sale. These minimum price levels guaranteed profit margins for televisions sold in Japan, while tariff and nontariff barriers effectively blocked foreign firms from entering this protected market. The Japanese firms used the resulting profits to invest in and improve the television-design knowledge transferred to them by U.S. firms.

In the early 1960s MITI decided to target the Japanese consumer electronics industry with governmental support to help it sell overseas. Supported by MITI, the Japanese firms worked to establish a product presence in the U.S. TV market. To coordinate their export efforts, they organized the Television Export Council in 1963. Their sources of competitive advantage at the time included superior technology, superior manufacturing processes, and high-quality products (Porter, 1983). They offered these superior TVs to importers like Sears and other retailers at prices well below those of U.S. producers.² By the late 1960s Japanese TVs were flooding into the United States and they quickly gained a dominant share of the U.S. market (Porter, 1983).

In 1968 the U.S. manufacturers requested protection from the U.S. government, alleging Japanese TV sets were being dumped in the United States.³ Three years later the Treasury Department responded to these complaints and charged Japanese firms with dumping TVs.⁴ By 1975 a minefield of proceedings and investigations faced Japanese firms (e.g., Hitachi, Mitsubishi, Sanyo, Sharp, and

Table 1. US Color TV Production by Japanese Firms

	1973	1974	1975	1976	1977	1978	1979
Sony	130	250	275	370	400	450	475
Matsushita	-	-	300	400	460	600	700
Sanyo	-	-	-	-	300	600	680
Toshiba	-	-	-	-	-	60	175
Mitsubishi	-	-	-	-	-	60	120
Hitachi	-	-	-	-	-	-	20
Sharp	-	-	-	-	-	-	100
	130	250	575	770	1160	1770	2270

Source: Porter, M. E. 1983. The U.S. Television Set Market, 1970-1979.

Toshiba). To represent them in resolving these cases, the Japanese firms hired Harald Malmgren, who had been the deputy special-trade representative for the Nixon and Ford administrations. In three months he worked out a compromise that became known as the Orderly Marketing Agreement (OMA). The Japanese would limit their television exports from Japan to the United States to 1.5 million units annually for three years. They would be permitted to use whatever manufacturing facilities they established in the United States to fill any demand that exceeded this quota. Many Japanese television makers quickly responded by establishing manufacturing facilities in the United States (see Table 1).

Sanyo Enters the United States

Sanyo had manufactured many of the TVs imported by Sears. Sears discussed with Sanyo the idea of providing technical help to its failing Warwick facility. Both were aware of the new import restrictions and Sanyo's consequent need for U.S. manufacturing facilities (Krisher, 1981). The discussions soon moved to the possibility that Sanyo might buy out Whirlpool's share of the Warwick venture. Sears arranged a buyout for \$10.3 million and provided Sanyo with a loan arrangement to underwrite the purchase. A Sanyo Electric subsidiary, the Sanyo Manufacturing Company (SMC), was established on January 1, 1977 at Forrest City.

Forrest City is located in Northeast Arkansas, west of Memphis in the Mississippi cotton delta.⁵ The city population is stable at 15,000 residents with around 50 percent white and 50 percent black. Around a third of the city population are illiterate, 30 percent are on welfare, incomes are generally low, and unemployment has hovered for many years around 20 percent.⁶

Sanyo was welcomed to Forrest City. People were afraid that the town's main employer, Warwick, would disappear, as had in fact been gradually happening. To manage the facility, SMC sent 26 managers and technicians from Japan. They were instructed to live throughout the city and to do, eat, play, and go to school

just as the Americans did. It appears that all of these men knew the technology and business practices of Sanyo Electric, their parent corporation, very well. It is not clear whether they had considered or even knew much about what it might be like to live in a cultural and social environment like Forrest City.

Mr. Satoshi Iue from Osaka was SMC's president. He managed relations between the SMC subsidiary and Sanyo's Headquarters in Osaka. Mr. Tanemichi Sohma, a Japanese national, was appointed Vice President for Administration and Personnel and put in charge of day-to-day plant operations. He had attended the University of Southern California in the 1950s, and his English language ability was better than most of his colleagues. He managed the relations between the Japanese managers and local employees and between the plant and the local community. Five of the new top SMC executives, including Sohma, came from Japan. The other four SMC executives were Americans inherited from Warwick's previous management group. The Japanese managers and technicians supervised operations at different levels and throughout the plant.

Establishing Control and Commitment

Sohma wanted to build a cooperative relationship between plant workers and management, and he launched many initiatives within SMC to make good relations a reality. The new management also sought to win the trust and confidence of Forrest City's citizens. To announce their arrival, Sanyo invited everyone in Forrest City to a welcome party. They quickly cleaned, painted, and renovated the run-down plant. When they needed new hires, they specifically sought to rehire workers who had previously worked for Warwick and had been laid off.

Quality Emphasis

SMC imported many of its transistor components from Japan to Forrest City where the workers assembled them into TVs. Within the plant, SMC's new management consistently emphasized that their primary concern was improved product quality. According to a worker at the factory (Hayes & Clark, 1981, p. 3):

The first thing Sanyo did when they took over [was that] they retained essentially all employees and managers who were there.... They did move some people around, though. For example, they took the former manager of Quality Control—who really had been taking a lot of heat from everybody during the previous two years, because of the quality problems we were having—and made him the plant manager. That, by the way, was just one of the signals they gave that the number-one priority for the plant was improving quality. All they talked about was quality.

In pursuing quality, many of the Japanese managers and technicians spent their time standing very close to the employees, watching what they did, correcting them, and providing training. The managers thought this was necessary. Some

workers reported that at times they thought this behavior was amusing, and most found the Japanese to be very fussy always wanting everything done exactly the particular way that they thought was right. The workers were well aware of how the Japanese had installed quality checks everywhere. They admitted, however, that the Japanese approach had vastly improved product quality.

Building a Happy Family

More than 60 percent of the workers at the SMC plant were black, and the International Union of Electrical Workers (IUE) organized these hourly workers. Sohma met with the union and explained that the company wanted to build a partnership with them. He emphasized Sanyo's intent to improve quality. To help achieve this goal, he asked the union to discuss production policies, methods, and goals with management, and to join management in implementing a start-to-finish quality program that would guarantee no defective TV would ever leave the plant. Initially, the union was pleasantly shocked at this approach but also somewhat at a loss to know how to respond. They had difficulty because they recalled how Warwick's management had always insisted production policies were management's prerogative. Workers had learned to close their eyes carefully to the many defective TVs leaving the plant. They saw the new approach as a big and positive change.

The work style that developed at SMC was noisy, busy, and casual. Believing little things counted, Sohma and his managers tried to notice and respond to anything and everything that could cause employees discomfort. Whenever they could, they remedied the matter immediately. In turn, they expected the workers to correct anything they noticed was wrong on the assembly line and also to do this immediately. Managers tried to be sensitive to both manufacturing requirements and workers' needs. When equipment was lacking, it was immediately purchased. When workers made mistakes, they were immediately counseled rather than discharged. In the first year, "Sanyo set out to create a 'big happy family' atmosphere to enhance morale" (Reid, 1977).

Firm loyalty was also very important to Sohma, the Japanese managers, and SMC. Sohma recognized how some of Warwick's established labor practices destroyed rather than encouraged loyalty. It had been Warwick's custom, for example, to let people go immediately after the Christmas production season. Sohma pledged to the union that Sanyo would seek to smooth production to phase out the need for repeated layoffs and recalls. Local employees were impressed by this commitment. They saw it as demonstrating a cooperative attitude toward workers and a willingness to use power and authority to change things in ways that benefited everyone.

Yet while Sohma consistently preached mutuality and shared responsibility for the production process, he did not give up the hierarchical power or the privileges that he and the other SMC executives enjoyed.⁷ The authority accorded Japanese

managers and technicians always distinguished them from the rest of the plant workforce. Sanyo also made little effort to modify other labor practices inherited from Warwick. For example, practices associated with Japanese firms such as lifetime employment or seniority-based pay systems were not introduced.

Operating Management

To facilitate sharing the management process, a management supervisory committee was appointed, including three managers from the United States and three from Japan. Decision making within this committee turned out to be slow and difficult. The U.S. managers thought the Japanese managers alluded to or implied what they wanted rather than giving explicit instructions. Not sensitive to the subtle cues offered by the Japanese managers, they would wait for instructions not realizing that these had already been given. This frustrated all sides. The difficulties were never resolved, and the committee was eventually abandoned. There were similar difficulties with attempts to introduce quality circles and other teamwork practices, and Sanyo managers eventually abandoned these efforts.

Building Control and Commitment

The 1979 Strike

Though Sohma seemed to be the person in charge at Forrest City, many decisions had to be referred back to headquarters in Japan for approval. This requirement could cause delays and misunderstandings, in part because many Japanese executives at Sanyo Electric's headquarters were not familiar with business life in the United States.

This became an issue in 1979 when a union strike lasting eight weeks was called. The strike was concerned with cost-of-living increases that had been promised but never implemented by the previous Warwick management. The union considered these increases a commitment that had been won and hence kept. SMC's local management thought that given the many contributions they had made to improve the workers lot in Forrest City, the union should not be holding Sanyo responsible for agreements made with Warwick. Both sides needed a clearer understanding of the expectations each had for the other. As the strike entered its third week, headquarters management in Osaka became worried, suspecting something was terribly wrong in Forrest City.⁸ Reasoning based on their Japanese experience that such a long strike must mean Sohma had gravely offended the workers, they directed him to call his workforce together, humble himself before them, and apologize for the terrible things he had done. In touch with the realities of the local situation, Sohma refused. His Osaka bosses did not understand these realities, and they rebuked Sohma, believing he had become too Americanized and was proving untrustworthy. Eventually, Sohma was able to

resolve the issues amicably. SMC also entered into a new five-year contract with Sears commencing in 1980.⁹

Sanyo imported the major components for its U.S. models, allowing Osaka to leverage its home-country scale advantages. The managers' job at Forrest City was to persuade workers to increase their production rate so this facility could also achieve the cost advantages associated with high volume. The Japanese managers were well aware, for example, that Sanyo's plants back in Osaka achieved the same quality as Forrest City but were 25 percent more efficient. Forrest City needed to achieve these standards for Osaka to effectively implement its global strategy based on volume and low costs.

This meant continuing pressures to reduce costs. It also meant that SMC management could not always keep the well-intentioned promises it had made to workers. According to Mr. Nakai, a Japanese manager for SMC (Krisher, 1981):

Given different American conditions, we haven't been totally able to transplant the Japanese way to America. There are good periods and also slow periods, with heavy sales focused on November and December for the Christmas season. We've naturally had to adjust our production schedule and lay off some workers, as do other American manufacturers.

In discussing the emerging differences between Japanese managers and U.S. workers, Mr. Nakai said (Krisher, 1981):

American workers maintain a much looser relationship toward their company compared with the Japanese.... However, we learned some lessons from that [1979 strike] and are now trying to improve the situation. In Japan, the union lives with the company and never pulls the trigger unless it finds itself in an extremely serious situation. It tries as much as possible to work with us on the same ground, because its members' future and prosperity are directly linked to ours. The important question for us right now is how to instill this concept in our American workers.

For their part, the U.S. workers had seen the vast improvements in quality, efficiency, and volume achieved at the plant since the takeover by Sanyo. The continual pressure for production improvements was gradually generating doubts about whether the Japanese managers would ever be satisfied.

As production rates were increased as much as tenfold and workforce numbers were increased only threefold, Sanyo increased its commitment to the facility. One step was to add microwave ovens to the product mix. By 1981 the plant employed 1,750 workers making televisions, 350 working in a furniture shop, and 250 making microwave ovens. Sanyo invested in total around \$60 million in the Forest City plant.

As well as increasing its commitment by working with local suppliers, Sanyo worked with local political leaders to attract additional Japanese investment to the area. In 1981, for example, Sanyo helped orchestrate a Far East tour by Arkansas Governor White to persuade Asian firms to establish plants in the area. Responding to Sanyo's recommendations, several Japanese and Far East firms located

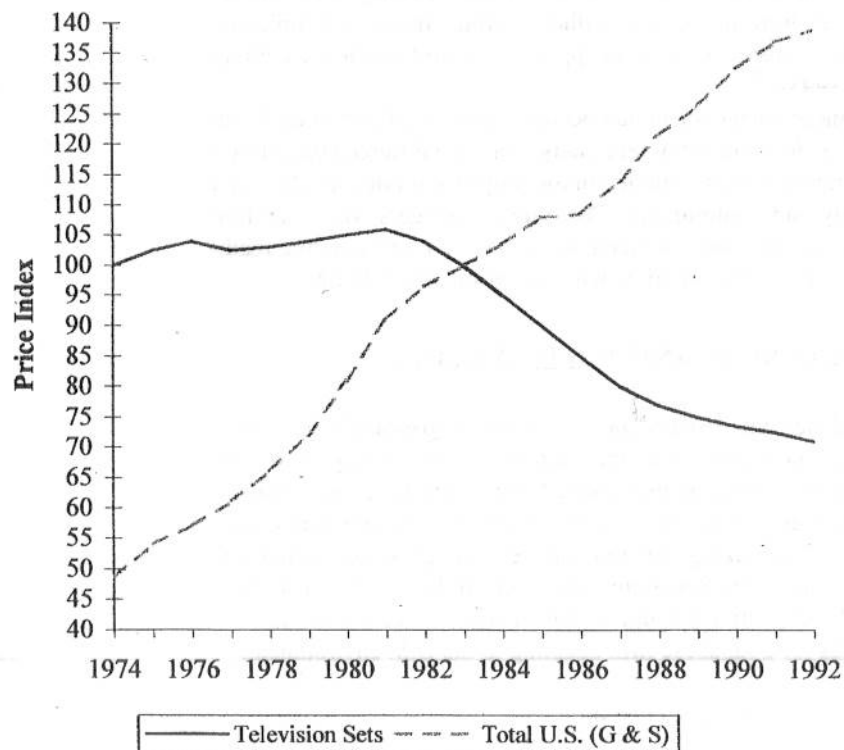
manufacturing and servicing facilities around Memphis and in the North East Arkansas area. In 1982 the union contract was successfully renegotiated without further incident.

Losing Control and Commitment

Competition Intensifies

In 1984 production capacity in the United States was 13.1 million TV sets while actual production was 11.5 million sets, around 89 percent of capacity. But TV

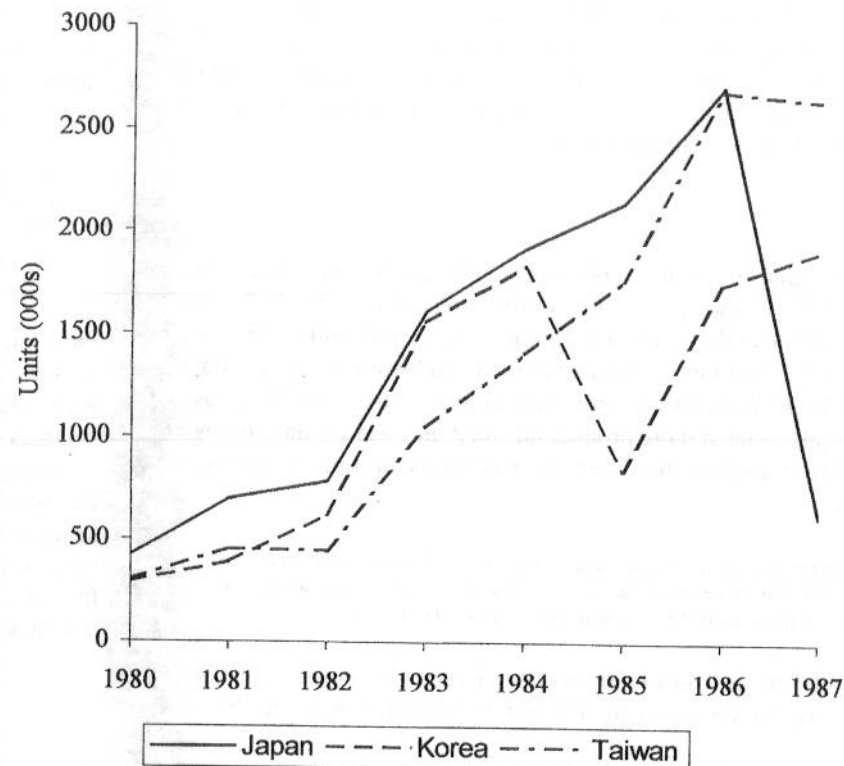
Annual Consumer Price Index U.S. 1974-1992



Source: Based on figures provided in The U.S. Consumer Electronics Industry in Review—1993 edition.

Figure 1. Television Set Prices versus Total Sales of All Goods and Services 1974-1992

U.S. Imports of TVs



Source: Based on figures provided in Collis (1988).

Figure 2. Imported Television sets: Japan versus Korea and Taiwan 1980-1987

manufacturers from South Korea and other Asian countries were about to enter the U.S. market. They offered products of comparable quality to the Japanese televisions, but lower price. The timing of their entry also coincided with efforts by Japanese firms to expand their production capacity. At the time, however, demand for televisions was actually leveling off. With slowing demand and growing over capacity, firms started to employ price-cutting strategies to increase market share. SMC found itself less protected and facing more market challenges than it had ever experienced since coming to the United States. Forced to lower prices, managers now felt greatly increased pressure to improve their efficiency. Like

most industry participants at the time, Sanyo had moved from a position where it had been making profits to a new position where it was forced to sustain losses.

Two years later U.S. industry production capacity had grown by 50 percent and was more than 17 million TV sets. This reflected the large capacity expansions undertaken by Japanese firms producing in the United States and new entrants coming from Korea and Taiwan. In contrast, actual television production had dropped to 11.2 million sets or just 66 percent of the expanded capacity. A shake out was about to occur among the 20 or so firms producing televisions in the United States (Porter, 1983) (see Figures 1 and 2).¹⁰

The 1985 Strike

Observing these changing competitive conditions, SMC had to renegotiate with its labor union in 1985. Knowing the competitive pressures it faced, Sanyo pressed the union to relax its rules relating to seniority rights and worker flexibility. They also proposed reductions in medical benefits and insurance costs. But the union resisted. Wilford W. Banks Jr., president of local 1106 of the IUE, was convinced that Sanyo just wanted more production and didn't want to have to pay for the extra effort. The atmosphere became bitter and for a short time, it was also violent (Byrne, 1988):

The demands [of Japanese management] sparked a 21-day strike. Pickets carried signs that read: "Japs go home" and "Remember Pearl Harbor." Windows were broken, guns were fired, a car was overturned, and at one point the plant was nearly overrun by strikers.

Police arrested the picketers, and they hit the strikers. Eventually, a new 42-month contract ended the strike, but the union and the firm felt the strike had left a bitter legacy.

By 1986 SMC employed 1,700 people who produced 1.2 million TV sets and 500,000 microwave ovens. SMC was the largest Japanese TV producer in the United States with annual sales of \$40 million. Yet due to increased competition reflecting industry overcapacity and price competition, the firm also lost \$14 million. SMC asked the union to accept a 20 percent wage cut as a sign of solidarity and loyalty to the firm. In response the union agreed to forgo a 3 percent wage increase along with cost-of-living increases and to allow SMC some flexibility in reassigning employees.¹¹ After most of its requests had been rejected, SMC began examining other ways to achieve cost reductions and reestablish cost competitiveness. With continuing industry overcapacity, intense competition, and sinking prices, Sanyo headquarters in Osaka considered whether it should keep the Forrest City facility open. Given competitive pressures and the union's intransigence, it seemed imperative to relocate production to where it would be possible to reduce costs to compete successfully. According to Darrell Carter, VP for operations (Risen, 1988):

All the Japanese consumer electronics companies [with plants in the United States] are being faced with difficult decisions on job security.... They can't compete with imports from Korea and Taiwan, and so they are setting up feeder plants in Mexico, building parts and products they used to make in the U.S.

Sanyo decided to scale back its operations in Forrest City drastically and shift its labor-intensive production to a Maquiladora in Tijuana, Mexico where the labor costs were about an eighth of those in Arkansas. According to Annette Bradley, a worker at SMC (Risen, 1988):

I don't know if it was bad management, or bad parts, but I know one thing was they could get cheaper labor in Mexico.... I feel bad. They're taking jobs from the U.S. to Mexico because of cheaper labor, and it hurts the States and it hurts the people. I know they're human, they're out to make a dollar just like the rest of us are, but it's just that it would have been better if they would have just tried to work a little bit more with us, instead of just ship everything out.

Employment dropped from 1,200 in 1986 to 650 in 1988 including just 190 hourly workers. Sanyo may well have intended to withdraw from Arkansas completely, but Governor Bill Clinton made a successful appeal to Sanyo Electric's chairman in Osaka (*Economist*, 1993).¹²

Locally, Sanyo Japanese management had become increasingly frustrated with the "way of thinking" of American workers. Sanyo had faced fierce competition for years and had attempted to work with the union, improve product quality, and build workforce loyalty and commitment. The Sanyo managers were therefore frustrated that at a time of obvious firm need, there was no corresponding readiness on workers' part to make any sacrifice whatsoever on behalf of SMC.

DISCUSSION AND IMPLICATIONS

The way Sanyo entered the United States, the actions it took to establish good relations with its workforce, and the processes that then led to labor-management conflict at a critical juncture are worthy of discussion. The case illustrates how Sanyo's initial competitive advantage drawn from its parent and its trading relationships was eroded as its superior organizing principles and technological capabilities diffused to competitors in the United States and other parts of the world. It also illustrates how cultural and competitive dynamics interact and co-evolve to create new and unanticipated issues for a Japanese firm adapting to the U.S. environment.

Cultural Dynamics

Sanyo's Entry Process

Sanyo's impetus for establishing U.S. facilities can be traced to the Orderly Marketing Agreement of 1976 that effectively limited Japanese television

exports. The agreement meant that if Japanese firms were to maintain their sales they had to produce their televisions in the United States. Sanyo implemented its entry into the United States strongly influenced by its established relationship with Sears.

Sears' actions reflect U.S. and not Japanese institutional and cultural norms. From Sears' point of view, its agreements with Sanyo reflected efforts to secure control and power over a committed and reliable supplier of a critical good (Porter, 1983). The Orderly Marketing Agreement threatened this relationship, and Sears wished to ensure a steady supply of high-quality TVs for its stores. Therefore, it encouraged Whirlpool to relinquish control of the Warwick facility to Sanyo and then guaranteed to buy a significant portion of Sanyo's television output from the Forrest City plant. These generous terms encouraged Sanyo to export its organizing methods and technologies directly from Osaka to Forrest City. It did this following the location and sales path presented to it by Sears.

Sears may be an unusual partner for Sanyo to follow because many of Sears' behaviors are in stark contrast to the institutional norms and culturally sanctioned behaviors Sanyo would expect from Japanese firms. A joint venture partnership (with Whirlpool) would certainly not have been thrown aside so easily in Japan. If a Japanese industry were threatened by foreign competition, government agencies would have held discussions with firms to assess how the consumer benefits of higher quality and cheaper TVs, for example, should be weighed against the national cost of losing an entire manufacturing industry. The fact that the basic technology had been created and developed by the firms now being forced to leave the industry would also have been discussed, and it would have been argued that this contribution justified a case for special consideration and support. Japanese post-World War economic history suggests a consistent preference for decisions that preserve industries as opposed to those that protect and favor consumer benefits (Fallows, 1994).

How Did Sanyo Establish Control and Commitment at the Warwick Facility?

The changes undertaken by Sanyo after its entry into the United States suggest that it sought to upgrade its Forrest City facility by directly transferring and imposing the parent company's technology and organizing practices on to its new subsidiary. Initially Sanyo focused on changing plant conditions and worker behaviors to improve TV quality and reliability. To staff the plant, Sanyo did not hesitate to employ members of the unionized workforce of the previous owner. In fact, they even went further, rehiring workers the previous owner had laid off. This policy is consistent with Brannen's (1995) observations that many Japanese top managers have great faith in plant workers. They believe that if these people are shown appropriate respect, they willingly work hard, cooperate, and produce. This new attitude was also in strong contrast to the Whirlpool approach that had

shown little respect for workers while emphasizing volume and ignoring quality. The workers in Forrest City liked the contrasting approach introduced by Sanyo.

The Japanese changes were intended to institutionalize a different approach to work. While the initial focus placed an emphasis on quality, this was to be just the beginning. The approach was expected to extend to an emphasis on quantity and culminate in processes directed toward continuous improvement. Sohma was the interface between the Japanese managers, the American workers, and the union, and so his role in the change effort was critical. Through his efforts, Sanyo effectively communicated its changed approach and won support from the labor force. It is likely that the historic unemployment in Forrest City and the low employee morale associated with Warwick's final days gave Sanyo management more power and also made the union more cooperative to management's initial requests (Beechler & Yang, 1994).

How Did Sanyo Lose Control and Commitment of Its Workforce?

As their initial concerns about their jobs faded and the improved output quality became accepted as normal, workers became more aware of how relentlessly the Japanese managers pursued increased efficiency. In work areas the managers were never satisfied and always wanted improvements. U.S. workers noted that while the Japanese de-emphasized status distinctions to improve work performance, they claimed special privileges in other areas. Yet they also expected the same organizational loyalty and sacrifice from workers as well as managers. The union felt that the Japanese did not appreciate how the combination of unrelenting pressures for work improvements, obvious privileges reserved for supervisors, and demands that everyone should be equally loyal to Sanyo were perceived as inconsistent conditions.

This state of affairs seems similar to the "bicultural alienation" discussed by Brannen and Sanyal (1993). The items in their "bicultural alienation scale" examine apparently positive aspects of supervisory behavior. These include the following assessments: supervisors seeking input from workers, workers feeling like valued group members, suggestions being valued, Japanese and Americans placing a similar value on hard work, and workers' participation and contributions at group meetings being valued. Yet Brannen and Sanyal (1993) found that as Japanese managers exert pressures for continual improvement and also emphasize their own privileged status, U.S. workers associate the scale behaviors with exploitation and new tricks to get more for less out of workers.

Such perceptions may be particularly likely in the United States where, unlike in Japan, the legal environment sanctions a competitive relationship between management and unions. In addition, people with individualistic values like U.S. workers may not respond well to organizational pressures for additional improvement unless they are provided with incentives that assure them additional individual (mostly financial) rewards. Given the increasingly competitive situation that

Sanyo's managers found themselves in and their expectations of employee loyalty, however, they did not consider offering further financial incentives. In fact, they asked for wage cuts. They reasoned that if the Forrest City workers were loyal to Sanyo, as the Japanese managers believed they should be, they would make needed extra efforts without need of further reward. But as Brannen and Sanyal (1993) note, if U.S. workers perceive themselves to be subject to continual and unfair pressure, they can become alienated rather than loyal.

When this culminated in a strike, many of Sanyo's Japanese managers were no longer optimistic about their ability to motivate U.S. workers. They reverted to negative stereotypes. As summarized by Brannen (1995), these stereotypes include beliefs that Americans "only think of themselves," and "only do things for money." The result can become a mutually negative cycle involving negative stereotyping on the one hand, and alienation and noncooperation on the other. This seems to be what eventually led to an embittered relationship between the union and SMC management after the second strike. Subject to direct market pressures and confronted with striking workers expressing no firm loyalty, Sanyo's managers became more self-centered and abandoned the idea and their ideal of "family" and community building.

Competitive Dynamics

Another area of interest is the way the competitive dynamics of the global television industry evolved and how this affected Warwick facility's competitive advantage. In 1977 Japanese electronic manufacturers had competitive advantages over U.S. firms based on their superior technology, superior manufacturing processes, higher-quality products, and prices that were significantly lower than those of U.S. manufacturers (Porter, 1983). But so far as Sanyo was concerned, industry competitive dynamics were not particularly significant at the time it entered the United States. With its superior product technology and demand guaranteed by Sears, SMC was initially buffered from the competitive dynamics of the U.S. industry.

This protection did not last, however. As the 1980s moved forward, the competitive pressures that plagued television manufacturers in particular, and electronic goods manufacturers in general, led to important changes. Increasingly, industry attention focused on financial returns enhanced by identifying those components that "added value" and could be priced to generate profits. The industry, including Sanyo, organized itself increasingly around component production. Components that required high skill and added high value were built most often in developed countries like Japan. Simpler, more standardized, or assembly line tasks were done in locations where labor costs were low such as Mexico and low-cost Asian countries. From a financial standpoint, these developments raised questions about the desirability of maintaining the SMC assembly plant in Arkansas.

Given this new competitive situation with new suppliers ready to offer the same quality but at lower prices than Sanyo (*Economist*, 1993), Sears was ready to abandon SMC in the same way it had abandoned its U.S. suppliers two decades earlier. This was a significant threat to SMC since Sears took 70 percent of its total output. With industry competition growing and price cuts the norm, Sears was no longer a reliable or a patient partner. Forced to lower prices, Sanyo managers felt enormous pressure to secure cost reductions and improve efficiency. They passed on this pressure directly to the workforce, but the U.S. workforce did not have the loyalty that Sanyo might have been able to count on from its Japanese employees in times of organizational need. The U.S. workers would not tolerate any increased managerial pressure, and in Forrest City, most didn't care about global competitive dynamics.

Building Competitive Advantage

Facing new competitive pressures, Sanyo needed to find new sources of competitive advantage. Taylor, Beechler, and Napier (1996) argue that a firm can use three generic orientations to build competitive advantage in a foreign country. When it entered the United States, Sanyo adopted an "exporting" approach, establishing the firm's competitive advantage through parent technology and organizing practices. A theoretical alternative is an "adaptive" approach where a firm imitates the local practices. This didn't make sense for Sanyo in 1977 because its technology and manufacturing practices were superior to those of U.S. firms. The third alternative is an "integrative" approach where a firm identifies the best ideas in its separate locations and then develops and builds its own unique integrative approach. This third approach was ultimately needed in Forrest City if SMC was to develop U.S.-based sources of competitive advantage.

Our analysis of Sanyo indicates that the three alternatives may not always be clear to managers, and in practice, the appropriate choice probably changes in response to competitive conditions (Beechler & Yang, 1994). In Sanyo's case, its exporting approach initially made sense. Later, however, Sanyo's increasing difficulties in implementing its Osaka practices in Forrest City and the mounting competitive pressures signaled that the firm's initial sources of competitive advantage might be eroding. Some form of integration accommodating the different values and priorities of the Japanese and U.S. workforces probably needed to be considered. Yet Sanyo management does not seem to have recognized the context-specific nature of some of the practices it attempted to transfer and did not take steps to explore the implications when they failed to transfer. Instead, Sanyo management simply abandoned elements that didn't transfer and sought no replacement for the functions performed by these abandoned elements. As the original sources of competitive advantage Sanyo brought to Forrest City eroded over time, the firm became increasingly vulnerable. The resource that Sanyo

seems to have assumed it could rely on was employee loyalty. But when firm managers called for firm loyalty, none was there.

A comparison of Sanyo with NUMMI may be useful. Both firms took over an established U.S. plant and workforce and worked with American unions. Adler (1993) notes that success at NUMMI was due to two important factors. One aspect is the emphasis on standardized practices; both Sanyo and NUMMI plants shared this characteristic. Additionally, Adler (1993) reports that NUMMI established a social context committed to continuous improvement. Sanyo wanted this too, but failed to implement it. Perhaps the status differences and privileges that remained in Forrest City but were eliminated at NUMMI were symbolically important enough in an American context to sabotage implementing a continuous improvement culture. In addition, training programs explaining the continual improvement programs were reportedly extensive at NUMMI, while they were absent at Sanyo.

Implications

The Sanyo case highlights issues that come up when a Japanese firm enters the United States. Adaptation in a foreign setting involves understanding and responding to both cultural and competitive dynamics. The Sanyo case suggests how these conditions co-evolve, interact, and change over time. More generally, cross-cultural research needs to explore "phenomenon in the making" to understand how adaptation in a foreign setting evolves. A more qualitative approach enables researchers to emphasize the impact of the foreign setting and the process by which a firm socially constructs its evolving world in this context.

Our analysis suggests that partner relationships are sensitive to and change in response to competitive pressures. U.S. partner commitments may be focused on the short term and what is currently convenient. Also, the U.S. personnel who originally negotiated such deals are less likely to be with their firm when times change. Japanese partners are, in addition to short-term commitments, concerned about loyalty and longer-term issues. These contrasting perspectives can lead to misunderstandings at times of growing competitive pressure when worker sacrifices and loyalty might help a firm survive, but these expectations are simply not part of a short-term view. Therefore the success of foreign alliances with U.S. firms is affected by changing competitive dynamics (i.e., the speed at which foreign superior practices and technology diffuse in the United States) and other societal-level factors (cf. Cheng, 1994). This suggests the following proposition:

Proposition 1. The success of alliances is affected by how the respective parties interpret the short-term and long-term consequences of changing competitive and social dynamics.

Our analysis of Sanyo's U.S. operations indicates that U.S. workers welcome worker participation in the production process. They may perceive unfairness, however, if there are continual pressures for improvement and management receives obvious privileges the workforce does not enjoy. Such inconsistencies may sabotage efforts to establish a continuous improvement culture. In addition since a continuous improvement culture is not the norm in U.S. unionized firms, implementing it may require support from an extensive training program. Learning from the experiences of other ventures such as NUMMI can help Japanese managers put in place mechanisms to make continuous improvements efforts successful (Adler, 1993).

Proposition 2. Japanese firms that adopt work practices accounting for both plant- and societal-level factors are more likely to succeed in sustaining the commitment of their U.S. workforce.

More generally, managers going abroad make decisions that balance a reliance on what they know from their home country with what they learn, and must adapt to, in the new country. This is an area of cross-cultural research which seems critical to practitioners (cf. Taylor, 1991). We suspect that firms from different countries use different approaches reflecting their cultural origins in successfully transferring home country practices to a foreign setting. We also suspect they differ in the extent to which they adapt the home country practices to the local environment. The parameters that influence these decisions are an important area for future research.

We also found that the changing nature of competitive dynamics affects firm competitive advantages. The Sanyo case indicates that while parent-based competitive advantage was needed to enter the U.S. market, it eroded over time. If a firm is in a foreign country for some time, it will probably need to develop a more integrated base of competitive advantage that draws in ideas from both the local facility and the parent. In other words, successful adaptation in a foreign setting involves understanding and responding to both the cultural *and* competitive dynamics.

Proposition 3. Foreign firms that explicitly develop an integrated base of competitive advantage drawing on local conditions are likely to be more successful than firms that only emphasize transferring parent-based competitive advantage.

We suspect that firms from different countries use different approaches reflecting their cultural origins in deciding the extent to which to invest efforts in developing an integrated base of competitive advantage. These bases will include a combination of social and technical factors and are likely to vary across industry. While initially, Sanyo's human resources practices were appealing to its U.S.

workforce, later events uncovered difficulties in adaptation that probably made an integrated base of competitive advantage impossible to achieve for this firm. As Sanyo's experience is limited to the consumer electronics industry, it is hard to generalize to other industries. Other firm case studies will probably be necessary to identify how an integrated base of competitive advantage can be developed in other industries.

CONCLUSIONS

Sanyo is an example of a Japanese firm that imposed Japanese ways of doing things when it established its facilities in the United States and then assessed the ongoing developments based on Japanese values. Though the Sanyo managers had great confidence in their methods and values and succeeded in bringing about many important improvements supported by their U.S. workforce, eventually these efforts reached an upper bound. The Japanese managers had difficulty accepting this state of affairs, for their corporate strategy was based on expansion and the lowering of production costs. But Sanyo's continual push for improvement led to worker alienation, strikes, and rejection right at the time that continued strategic success for Sanyo required worker loyalty, commitment, and sacrifice. The Sanyo case illustrates that foreign firms competing in the United States should not underestimate the importance of cultural and competitive dynamics and how these co-evolve over time in unmanaged ways. These dynamics, generally not apparent at entry, can and do play an important role as a firm adapts in a foreign setting.

ACKNOWLEDGMENTS

Authors are listed alphabetically. We thank Allan Bird, Anil Nair, Myles Shaver, and D. Eleanor Westney for their helpful comments on the earlier versions of this paper.

NOTES

1. We also contacted Mr. Naoki Nakamura, president of Sanyo's operations in the United States. He responded to our request in a gracious manner but noted, "because of some past incidents that have occurred it would be in our best interests that you choose another Japanese company." We informed him that while we were disappointed in his unwillingness to partake in the study, we intended to continue with our focus on Sanyo Electric's U.S. operations.

2. The Japanese firms not only offered TVs to importers at prices U.S. manufacturers believed were below cost, in addition, they offered rebates of up to \$40 per set and additional payments for "market research." While these Japanese tactics appalled U.S. manufacturers, U.S. importers liked them and willingly agreed to import Japanese TVs.

3. In 1951 there were over 90 U.S.-owned firms that manufactured TVs. By 1968, 28 firms manufactured TVs. By 1976 only six U.S.-owned firms remained. As a result of the Japanese imports, U.S.

employment in television production dropped 50 percent between 1966 and 1970, another 30 percent between 1971 and 1975, and a further 25 percent between 1977 and 1981.

4. This finding meant that anti-dumping levies could be collected from firms to offset the advantage they had gained. The calculation of such levies required accurate information from the Japanese firms, however, and they would not provide this data. Although it was possible to impute the figures, to do so would have invited retaliation and a trade war.

5. General Nathan Bedford Forrest, a flamboyant hero of the confederate cavalry, founded Forrest City in 1866. General Forrest is remembered for several reasons. During the Civil War he is reputed to have had approximately 20 horses shot out from under him. After the war, he settled in Forrest City, where he became the first grand wizard of the Ku Klux Klan (KKK). He later resigned as the KKK became too violent for him.

6. The media has periodically highlighted the racial tensions that have historically pervaded Forrest City and the surrounding county. Court-ordered school integration directly impacted the area in 1965. In 1969, for example, students at a black high school rioted after a favorite teacher was fired for "insubordination." A private school, Forrest City Academy, was founded in the 1970s for whites only. Its closure in the 1980s reflected the greater tolerance characteristic of more recent times. In 1988 the Forrest City High School held its first integrated prom. The media watching closely not only reported no incidents but pronounced it an outstanding success.

7. As an example, Sohma explained to the union that Japanese managers found it repulsive when workers smoked on the production line. With union cooperation he phased out smoking among line workers. Some Japanese executives reasoned that because they were not workers on the line, this agreement did not apply to them and they continued to smoke in the plant. They also claimed special parking privileges and other perks. In this way Sohma supported distinctions and privileges accorded to Japanese managers but not to workers.

8. Strikes in Japan are usually symbolic expressions of a breakdown in relations between management and workers. Having effectively signaled their concerns by wearing armbands and working even harder than usual, for example, workers most often then call off their strike.

9. Under the terms of the contract, Sears "agreed to purchase at least 70% of its annual requirements of color televisions receivers for sale in the United States from SMC.... During 1980 about 82% of the company's production went to Sears; the remainder was sold through SMC's parent company" (Hayes & Clark, 1981, p. 3).

10. Most of the firms producing in the United States were foreign-owned. Many were Japanese subsidiaries but several were more recently established subsidiaries of Korean and Taiwanese multinationals. The Korean and Taiwanese firms were prepared to compete just as fiercely on quality and price criteria as the Japanese had done two decades earlier.

11. The union had asked its auditor to check SMC's books and assess whether a request to cut wages by 20 percent was justified. The auditor's perspective was in terms of Sanyo's relative labor costs and not in terms of Osaka's need to establish a strategic advantage through cost competitiveness. When he reported Sanyo's problems were not located in its relative labor costs, the union rejected SMC's request.

12. The *Economist* noted (1993, p. A29): "Some say that Sanyo did not pull out altogether only because Mr. Clinton, on a trip to Japan, appealed to Sanyo's chairman in person to save the plant. He intervened again when Sears cut back on its Sanyo orders, arranging a new retailing deal with Wal-Mart chain (which is based in Arkansas)."

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