
JAPANESE VERSUS AMERICAN CORPORATE COMPETITIVE ADVANTAGES: DIFFERENCES IN TURNAROUND STRATEGY ANTECEDENTS, ACTIONS, AND RESULTS

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The Japanese competitive advantage can be summarized by the dilemma stated by Takeo Fujisawa, co-founder of the Honda Motor Company, that "Japanese and American management is ninety-five percent the same and differs in all important respects" ([48], p. 85). Strategic competitive differences have been exploited by Japanese corporations with respect to human resource management, finance, production, marketing, environmental, and strategic factors. Competitive advantages have dictated corporate success for several key industries which the Japanese government has targeted and supported as crucial to the long-range growth of the Japanese economy.

The electronics industry has recently been a key sector for government policy and competition. The steep 1987 U.S. tariffs on Japanese electronic products have forced Japanese corporations to design turnaround strategies to reverse declining market share and profitability. There has been an increasing need for American electronics firms to confront the Japanese challenge and for Japanese electronics firms to overcome greater market entry barriers. Against that backdrop, this study focuses on the application of the current turnaround strategy theories for understanding competitive differences between American and Japanese approaches to turnaround antecedents, strategic actions, and corporate performance results.

American vs. Japanese Human Resource Strategy

From a human resource management perspective, the American spirit of competitive individualism within corporations contrasts sharply with the Japanese philosophy of *wa* (harmony). This pervades all aspects of Japanese corporate culture ([52], [59]), even to the extent that it has been labeled by American scholars as a unique form of management called Theory Z ([11], [45], [48], [64], [68]).

Prospective Japanese employees are ultimately selected on the basis of demonstrating an accommodating type of personality, given that they meet certain ability and educational requirements ([52], [55]). Role-socialization by the Japanese corporate culture continues during several months of initial job training. It actually continues throughout employment in the form of worker cross-training ([47], [52]) and transfers of managers to all phases of corporate operations ([16], [55], [57]). The continual

process of training or transferring employees results in a highly skilled and flexible workforce, establishment of personal contacts in all departments of the corporation, and a clan-like sense of loyalty to the firm [52].

Major Japanese firms have justified the costs of cross-training and frequent transfers as effective investments, considering that their employees are committed to a lifetime of the job with the corporation ([1], [36], [53]), awarded to male employees ([52], [57]). The personal costs of lifetime job security involve extra unpaid hours demanded from those employees [41] and the layoffs of primarily female and temporary employees during recessionary years [52]. The Japanese "lifetime" security system does not guarantee the same employment stability as an American "no-layoff" system [36]. Another consequence of the Japanese cross-training and transferring system has been the exceptional effectiveness of communication and teamwork within the corporation ([52], [55]). Even the Japanese compensation system has been team-oriented. For example, annual salary increases are based on corporate performance instead of individual achievement ([3], [47], [52]).

Gain-sharing programs that provide monthly bonus checks for American employees as a consequence of increasing individual worker productivity ([49], [63], [67]) contrast sharply with the traditional Japanese *bonasu* system of semi-annual corporate profit-sharing payment ([1], [12], [55]). The *bonasu* system was designed in the 1940s to supplement low base wages so that workers would receive a semi-annual bonus equivalent to six months' wages during the best years, but might receive no bonus during unprofitable years ([42], pp. 12-13). The bonus has averaged the equivalent of two months' wages for each of the semi-annual payments in the past two years [12]. Such nondeferred profit-sharing plans have enhanced the ability of Japanese corporations to weather recessions while honoring lifetime employment contracts.

Similarly, Japanese executives are compensated with salaries that amount to about a seventh of the salary of comparable American executives [1, pp. 192-195]. Japanese tax laws provide little means to shelter high income so that executives are compensated with perquisites to a greater extent than their American counterparts [59]. The overall effect of lower fixed personnel costs has granted Japanese firms a commanding degree of flexibility in their cost structure.

The Japanese human resource system does reward individual performance in ways other than direct compensation. Although promotions are based primarily on seniority, small differential promotions based on annual individual performance appraisals can result in significant differences over several years [52]. Managers who are promoted to the executive level must demonstrate high team effort and high individual ability.

Japanese human resource management has become world renowned for the consultative decision-making process called *nemawashi*, the accommodation of employee input in a middle-down-up collaborative style [47]. Although it has been characterized as participative or concensual ([19], [45], [48], [55], [57]), the delegation of decisions to middle managers can be accompanied by preferred solutions which may be modified only somewhat by consultation with subordinates. Whether or not a real

consensus emerges, as would be implied by the official *ringi seido* (signed decision memo), the consultative process does demonstrate concern for employees ([6], [52]). The process also serves as an illustration of the Japanese concept of *kaizen*, constant incremental improvement ([6], [47]) and as an outlet for employee creativity.¹ Greater emphasis on employee creativity in the future [43] may enhance the shortcomings of many traditional Japanese personnel practices [24]. This would compensate for the current trend away from some traditional practices, such as lifetime job security and seniority-based promotion. This trend is the result of greater life expectancy and later employee retirement ([1], [4]). In essence, the radical differences between traditional American and Japanese human resource practices are beginning to decrease with recent societal and corporate changes [2].

American vs. Japanese Production, Financial, and Marketing Strategy

The characteristics of the production, financial, and marketing subsystems differ greatly between American and Japanese corporations. Recent American production management techniques have emphasized computer-oriented methods, such as Materials Requirements Planning, as well as emulating the traditional people-oriented Japanese techniques, such as *kanban* (just-in-time inventory control) [55], *jidoka* (problem-seeking by consulting workers) [39], quality control circles ([45], [52]), and shop-floor quality consciousness [39]. A recent empirical study has demonstrated great disparity between quality levels for the best American firms and average Japanese firms [19].

The contrast for American versus Japanese corporations appears to be greater with less propensity of convergence in their financial characteristics. Although most major American firms are capitalized by equity, Japanese firms are financed by about sixty percent debt, twenty-five percent retained earnings, and only fifteen percent equity ([37], p. 31). The higher debt-to-equity ratio may be somewhat inflated by differences between American and Japanese accounting practices ([1], [39], [52]); greater debt structure results from the very low interest rates offered by Japanese financial institutions ([1], [39], [41]). The phenomenal abundance of capital is created by the five-fold difference in personal savings rates; for example, the Japanese rate was 19 percent as compared to the American rate of 4 percent in 1988. However, the savings rate differential may decrease slightly in the future as Japanese people expand their use of consumer credit and as the social security system evolves to become more than just the historical minimal supplement to income generated by retirement and savings plans. As a result, the cost of capital must increase for Japanese corporations, as well as the marketing cost structure for their mature industries.

The marketing strategy of Japanese firms tends to follow an escalating five-stage process. The process includes: (1) searching for opportunities provided by vacant niches, (2) creating opportunities with innovative products, (3) developing markets

¹For example, at progressive firms such as Sony Corporation [62].

by creative marketing, (4) adapting to and changing consumer preferences, and (5) learning from competitors to create opportunities [37]. The success of Japanese corporations in foreign markets has been enhanced by the provision of market intelligence by a unique system of government-subsidized organizations, such as the Japan External Trade Organization ([1], [39]). Although significant differences exist between American and Japanese firms, successful American corporations need not imitate Japanese firms ([11], [24]). Even Japanese corporations have experienced difficulty in transferring their techniques to foreign subsidiaries as demonstrated by a study that disclosed fourteen negative factors, such as poor technology transfer, and seventeen positive factors, such as quality control circles [55].

American vs. Japanese Task Environment Impacts on Corporations

Governmental and trade organization differences between Japan and the United States have made a significant impact on their competitive advantages. American firms have generally remained self-reliant for competitive purposes. Some exceptions include the purchasing of environmental information primarily from private sources such as consulting firms, and externally-oriented promotion such as lobbying government sectors by industry associations. In contrast, Japanese firms receive free information about foreign markets from government agencies such as the Japan External Trade Organization (JETRO), the Ministry of International Trade and Industry (MITI), and the Industrial Structure Council (ISC) ([1], [37], [39]). Remunerative provision of global marketing intelligence to a firm results from association with one of the *keiretsu* or *Sogo Shosha*. Most major Japanese firms belong to a *keiretsu* (business group) which is dominated by a large bank that holds an equity position in and guarantees loans for member corporations ([1], [39]). Foreign market information can also be purchased from the unique Japanese *Sogo Shosha* (General Trading Companies, or GTCs) that dominate world trade and trade development [37]. Overall, access to global marketing intelligence at a moderate cost is greater for most Japanese firms than for their American counterparts.

Differences between American and Japanese governmental policy have also resulted in competitive advantages. The American Social Security system has encouraged reliance on the federal government for a retirement and social service safety net. By contrast, the minimal Japanese social security system has reinforced the highest rate of personal savings in the world and reliance on the corporation to provide a wide array of social benefits from subsidized housing to retirement benefits ([1], [39], [41]). The firms are supported by governmental subsidies and protective policies; for example, tariffs and quotas for industries which are targeted by the government as crucial to the growth of the Japanese economy. Corporations in targeted industries, such as electronics, can develop successful products in a sheltered domestic market before confronting foreign competitors in global markets ([37], [62]). However, many environmental differences between Japan and the United States in the future may prove to be less significant than corporate strategic planning [38].

Corporate Turnaround Strategy: Antecedents, Actions, and Results

Turnaround strategies have accounted for an increasingly important role in the revitalization of recently declining firms or industries. A popular example was the dramatic turnaround of the Chrysler Corporation in the early 1980s. When Lee Iacocca arrived as the chief executive officer in 1979, Chrysler was producing vehicles of increasingly inferior quality, had decreasing productivity and sales, and was facing greater foreign competition. Chrysler adopted turnaround strategies that included (1) the divestiture of Chrysler Defense, Inc. in 1982 for \$348.5 million, (2) cutting half of the managerial and work force costs to save \$1.2 billion annually, (3) reducing assets by closing or consolidating twenty plants to save about \$2 billion annually, (4) modernizing the remaining forty plants, (5) simplifying the production processes by reducing one-third of the number of parts, thus eliminating \$1 billion in inventory, (6) implementing the latest statistical quality control techniques, (7) restructuring \$1.3 billion of debt into preferred stock, and (8) refocusing products so that by 1985 ninety percent of productive capacity was dedicated to technologically advanced front-wheel drive vehicles [33].

Antecedents of Turnaround Strategy

A turnaround strategy is appropriate for a firm that exhibits antecedent characteristics such as a declining internal or environmental business situation ([27], [29], [30]). Those antecedents include decreasing profit margins, sales, market share, price levels, plant capacity utilization, return on assets, managerial effectiveness, employee morale, capital improvements; and increasing operating costs, debt/equity ratio, or competitiveness of rival firms ([15], [20], [22], [28], [32], [40], [56], [58], [60]).

Although a poorly managed company can become unsuccessful in any industry, corporations in declining industries most often exhibit antecedents calling for turnaround actions. Declining growth in product demand had characterized two-thirds of the industries such as the American electrical and electronics industry, the annual growth rate of industry-wide sales fell below the annual real growth rate of the U.S. economy for five of the past ten years [56]. Corporations that have been categorized as parts of declining, mature, or stagnant industries are most often described as potential candidates for turnaround strategies ([10], [21], [23], [25], [26], [27], [29], [50], [51]). For Japanese corporations, the recent antecedents of turnaround strategies have included the doubled dollar/yen exchange rate since 1985 and the punitive U.S. import tariffs on electronic products in 1987 ([4], [12]).

Types of Turnaround Strategy Actions

The literature for turnaround strategy actions can be integrated into a four-category action typology: revenue generation, product/market refocusing, asset reduction, and productivity improvement. This typology was proposed by Hofer [32], who expanded on the leading empirical research by Schendel, Patton, and Riggs [56].

Revenue generation turnaround actions have been described in other theoretical models as "revenue push" by Hambrick [22], and market share "leadership" by Porter

[50]. Specific revenue generation actions include raising product prices, increasing cash discounts to customers, loosening customer credit criteria [60], and market share domination [20]. Revenue generation strategies account for most profit turnarounds [46]. Japanese revenue generation strategies have justified raising product prices by improving the product design or features so that profitability can be increased without sacrificing market share ([24], [44]).

Product/market refocusing turnaround actions described by Hofer [32] are related to "selective product/market pruning" as described by Hambrick and Schechter ([22], [23]), "shrinking cures" as described by Schendel, Patton, and Riggs [56]. Specific product/market refocusing actions include the elimination of unprofitable products, customers, channels of distribution, sales regions, or sales representatives ([20], [60]).

Asset reduction turnaround actions are described by Hofer [32], and referred to as "asset surgery" by Hambrick and Schechter [23], as "immediate cash flow" by Sloma [60], as "major retrenchment" by Hambrick [22], and as divestiture "strategic cures" by Schendel, Patton, and Riggs [56]. Specific asset reduction actions include the liquidation of inventory, equipment, or physical plant, and the divestiture of a subsidiary, product line, or holdings ([20], [60]).

Productivity improvement turnaround actions are described as "cost cutting" by Hofer [32] and Hambrick [22], as "operating cures" by Schendel, Patton, and Riggs [56], and as "cost surgery" and "piecemeal productivity" by Hambrick and Schechter [23]. Specific cost cutting actions include several means for reducing administrative, personnel, financial, product related, plant related, and production expenses ([14], [20], [35], [60]). Productivity improvement actions can also be implemented as proactive strategies; for example, greater plant capacity utilization and employee gain-sharing or profit-sharing plans ([8], [9], [29], [31], [35], [49], [63], [65], [67]). Equally important would be effective timing of the stages of turnaround action implementation ([5], [18]).

Turnaround Strategy Results

The successful implementation of turnaround strategy actions produces results that reverse declining corporate performance. Turnaround strategy results can be measured in terms of sales and profits ([22], [32]), return on investment [23], or some multidimensional approach ([20], [21], [25], [26], [27], [56]). Depending on the reasons for the need to implement a turnaround strategy, the turnaround results can be some combination of relative improvements in corporate cash flow, operating profit margin, market share, return on investment, sales growth, employee morale, inventory turnover, and unit labor costs ([20], [60]). In general, American corporations tend to emphasize short range results such as profitability, but Japanese firms tend to stress long range results such as market share ([24], [35], [44]).

Survey Methodology

Turnaround strategy antecedents, actions and results were examined by surveying the presidents of one hundred and thirty American electronics firms and one

hundred and twenty Japanese electronics firms' subsidiaries in the United States. The electronics industry was selected for the following reasons: (1) the large number of firms that could be surveyed in a fragmented industry [50], (2) the need for turnaround strategies for an industry with increasing costs and foreign competition, (3) the greatly fluctuating foreign currency rates, and (4) the declining revenues for five of the past ten years [56]. The electronics industry involves direct competition between American and Japanese corporations in all four segments: electrical products (e.g., Westinghouse and Hitachi), electronics (e.g., GM Hughes Electronics and Matsushita), instruments (e.g., Honeywell and Nissei Sangyo), and semiconductors (e.g., Motorola and NEC). The Japanese electronics industry accounts for about one-third of Japan's export revenues ([1], p. 278). As the largest export segment, it was significantly affected by the punitive 1987 U.S. tariffs on Japanese electronic products.

The turnaround strategy survey was directed to the president of each corporation to capture information directly at the policy-making level of the firm. The president would be the executive held most responsible for the formulation, implementation, and control of the corporate policy and strategic planning processes. For each Japanese corporation, their American subsidiary was selected because it faced market forces more comparable to those of American electronics firms. American corporations and Japanese subsidiaries were randomly selected from among electronics firms with Standard Industrial Codes in the 3600 and 3800 series. The size of the selected corporations varied greatly, averaging about five thousand employees for both samples ([71], [61], [66]). The respondents were promised anonymity and a copy of the survey results at a later date. The research advantages of the survey included obtaining information about strategic planning which is seldom accessible in public documents. The subjective nature of the survey responses presents some limitations; however, previous research demonstrates a high correlation between subjective and objective measures of corporate strategy and performance [13].

Survey Measures and Procedures

The turnaround strategy consisted of a descriptive paragraph introducing each of three sections which included a total of eighteen items. The six antecedent to turnaround items were (1) decreasing product line profitability, (2) decreasing account profitability, (3) fluctuating foreign currency rates, (4) increasing financial expenses, (5) increasing production/operation costs, and (6) decreasing employee morale. The six turnaround strategic action items were (1) expanding revenue by raising product prices, (2) eliminating unprofitable products, (3) using gain-sharing or nondeferred profit-sharing, (4) renegotiating credit lines and debt, (5) increasing capacity utilization, and (6) reducing fixed personnel costs. The six turnaround results items were (1) increasing return on investment, (2) increasing operating profit margin, (3) increasing cash flow, (4) increasing employee morale, (5) increasing sales growth, and (6) decreasing unit labor costs.

The eighteen survey items were designed based on the previously described literature about turnaround strategies ([5], [22], [23], [25], [26], [27], [32], [56], [60]) and

were selected based on the results of a prior 56-item exploratory survey of turnaround strategies of forty-two American corporations [20]. The respondents to the survey were asked to rate each action item according to its "degree of improvement" in the past ten years as a result of turnaround actions. The Likert-type response scale included: (1) was described as "none," (2) as "low," (3) as "medium," (4) as "high," and (5) as "great." Based on past research, a ten-year time frame included a potential four-year downturn phase, a two-year action phase, and a four-year upturn phase for significant turnaround results [56].

The survey questionnaire was translated into Japanese by a group of American and Japanese management consultants at Strategic Global Enterprises, Ltd., in Chicago, Illinois. The Japanese translation was translated back into English by an independent group of American and Japanese consultants to assure accuracy of translation of the terms used in the survey. The double translation process was necessary because many English business concepts are difficult to express in Japanese terms. The English version was also included with the Japanese questionnaire which was sent to the Japanese version of the questionnaire. A cover letter described the purpose of the survey; a self-addressed postage-paid envelope was also enclosed.

Fifty-nine fully-usable and six partially-completed questionnaires were received from American firms. Japanese firms returned fifty-nine fully-usable responses and three partially-completed responses. The overall response rates that amounted to fifty percent for each of the American and the Japanese sample were achieved by several follow-up mailings.

Data Analysis

Analysis of the survey data tested the differences of mean responses and regression models between the American and Japanese firms. Stepwise regression analysis initially established significant relationships between turnaround antecedents and turnaround strategy actions. Regression models were established separately for the American and Japanese samples to determine whether they would differ for each turnaround action. Dissimilar models would indicate that under certain conditions American firms adopt different turnaround strategies than Japanese firms. Further stepwise regression analysis tested whether the relationships of turnaround actions regressed onto turnaround results were different between the American and Japanese samples.

Survey Results

The statistical means and tests of differences between the American and Japanese firms are represented in Table 1. First, for the turnaround antecedents, the average Japanese response was significantly greater than the average American response for the following four items: (1) decreasing product line profitability, (2) decreasing account profitability, (3) fluctuating foreign currency rates, and (4) increasing financial expense. Second, for turnaround strategy actions, the Japanese firms reported

significantly greater implementation than the American firms for the following two items: (1) expand revenue by raising product prices and (2) use gain-sharing or non-deferred profit-sharing. However, the degree of implementation was similar between American and Japanese firms for the highest reported action, increasing capacity utilization. Finally, the American firms achieved significantly greater results than the Japanese firms for the following two items: (1) increasing return on investment and (2) increasing operating profit margin.

Table 1
American and Japanese Firms' Mean Responses and Significance Tests
for Turnaround Antecedents, Actions, and Results

Variable Category and Specific Items	American Mean	Japanese Mean	t-test value
<i>Turnaround Antecedents:</i>			
Decreasing product line profitability	3.00	3.51	2.33**
Decreasing account profitability	2.76	3.56	4.07***
Fluctuating foreign currency rates	2.51	4.54	10.30***
Increasing financial expense	2.46	2.81	1.83*
Increasing production/operations cost	3.02	3.24	1.21
<i>Turnaround Actions:</i>			
Expand revenue by raising product prices	2.61	3.22	3.72***
Eliminate unprofitable products	2.98	3.12	0.62
Use gain-sharing/nondeferred profit-sharing	1.69	2.36	3.44***
Renegotiate credit lines and debt	2.41	2.53	0.54
Increase capacity utilization	3.34	3.54	1.10
Reduce fixed personnel costs	2.68	2.80	0.62
<i>Turnaround Results:</i>			
Increasing return on investment	3.34	2.93	2.47**
Increasing operating profit margin	3.32	2.98	2.00*
Increasing cash flow	3.25	3.07	1.12
Increasing employee morale	3.08	3.15	0.39
Increasing sales growth	3.51	3.59	0.50
Decreasing unit labor costs	2.83	3.03	1.25

* Significant difference between the means at the .05 level.

** Significant difference between the means at the .01 level.

*** Significant difference between the means at the .001 level.

The results of regression analysis of the turnaround antecedents regressed onto the turnaround strategy actions are reported in Table 2. The standardized regression beta coefficients indicate the magnitude of each significant relationship between the turnaround antecedents and the strategy action. The model for the American firms

was completely different from the model for the Japanese firms for the following four actions: (1) expanding revenue by raising product prices, (2) eliminating unprofitable products, (3) using gain-sharing or nondeferred profit-sharing, and (4) increasing capacity utilization. For each of the two remaining strategy actions, the regression results included somewhat different antecedents between the American and Japanese models.

Table 2
American and Japanese Firms' Responses for Turnaround Antecedents
Regressed onto each Turnaround Action:
Standardized Regression Beta Coefficients

Action: Dependent Variable	Beta	Antecedents: Independent Variables
<u>Expand Revenue by Raising Product Prices:</u>		
American firms' model	.26*	Increasing production/operations cost
Japanese firms' model	.26*	Fluctuating foreign currency rates
<u>Eliminate Unprofitable Products:</u>		
American firms' model	.29*	Increasing production/operation cost
Japanese firms' model	.30*	Decreasing account profitability
<u>Use Gain-sharing/Nondeferred Profit-sharing:</u>		
American firms' model	.36***	Increasing production/operations cost
	.26*	Increasing financial expense
	-.32**	Fluctuating foreign currency rates
Japanese firms' model	.31**	Decreasing product line profitability
<u>Renegotiate Credit Lines and Debt:</u>		
American firms' model	.43****	Increasing financial expenses
Japanese firms' model	.27*	Increasing financial expense
	.24*	Decreasing product line profitability
	-.33**	Decreasing employee morale
<u>Increasing Capacity Utilization:</u>		
American firms' model	.31**	Decreasing employee morale
Japanese firms' model	.30*	Decreasing product line profitability
<u>Reduce Fixed Personnel Costs:</u>		
American firms' model	.38***	Decreasing employee morale
Japanese firms' model	.43****	Decreasing product line profitability
	.24*	Decreasing employee morale

* Significant at the .05 level for the *F* statistic.

** Significant at the .01 level for the *F* statistic.

*** Significant at the .005 level for the *F* statistic.

**** Significant at the .001 level for the *F* statistic.

Regression analysis revealed that several strategy actions were significantly related to most of the turnaround results as demonstrated in Table 3. The only completely different models between the American and Japanese firms occurred for increasing

profit margin. There were somewhat different strategy actions between the American and Japanese models for the following four turnaround results: (1) increasing return on investment, (2) increasing cash flow, (3) increasing employee morale, and (4) decreasing unit labor costs. The only similar American and Japanese models resulted for increasing sales growth. The frequency of each significant strategy action in Table 3 showed the following distribution: ten times for increasing capacity utilization, unprofitable products, four times for reducing fixed personnel costs, and once for using gain-sharing or nondeferred profit-sharing. Although the regression models differ between American firms and Japanese firms, the results demonstrate predominant patterns of strategy actions, especially for increasing capacity utilization.

Discussion and Conclusions

The turnaround survey findings support previous literature and suggest specific strategic differences between American and Japanese electronics corporations. The common belief that the ninety-five percent similar management practices are unimportant, but the five percent different management practices are *all-important* ([48], p. 85) appears to be overstated in two respects. First, American and Japanese turnaround strategies were reported as similar for most dimensions overall but differed for two-thirds of the antecedents, one-third of the actions, and one-third of the turnaround result items. Second, the differences between American and Japanese firms could have resulted from a common cause; for example, the 1987 U.S. import tariffs on electronic products could have led to declining Japanese firms' line profitability, account profitability, and financial competitiveness. The greater American turnaround results of profitability, such as increasing return on investment and operating profit margin items, demonstrate the common Japanese practice of lower expected profitability in capturing market share ([1], [37], [52]).

However, the significantly different strategy actions confirm the previously reported Japanese competitive advantages for marketing and human resource management. The greater propensity of Japanese firms to expand revenue by raising product prices from year to year has been most visible for consumer electronics [37]. Japanese corporations have supported high pricing policies by appropriately increasing marketing strategies; for example, Sony's massive promotional strategy and annual new product features or designs ([37], [62]). In addition to raising product prices, Japanese firms have also excelled in another proactive turnaround strategy action of profit-sharing. The Japanese semi-annual *bonasu* system has rewarded teamwork and productivity ([1], [12], [42], [55]). The Japanese competitive advantage could be reduced if American corporations continue the recent trend toward implementation of productivity gain-sharing programs ([49], [63], [67]).

The regression results demonstrated that different strategies were usually implemented by the American firms than by the Japanese firms for each turnaround antecedent, as in Table 2. Fluctuating foreign currency rates affected only the Japanese regression models, and the Japanese firms responded by raising product prices. For American firms, increasing production/operation costs led to eliminating unprofitable

Table 3
American and Japanese Firms' Responses for Turnaround Actions
Regressed onto each Turnaround Result:
Standardized Regression Beta Coefficients

Result: Dependent Variable	Beta	Actions: Independent Variables
<u>Increasing Return on Investment:</u>		
American firms' model	.36****	Increase capacity utilization
	.23*	Eliminate unprofitable products
	-.22*	Use gain-sharing/nondeferred profit-sharing
Japanese firms' model	.24*	Increase capacity utilization
	.23*	Reduce fixed personnel costs
<u>Increasing Operating Profit Margin:</u>		
American firms' model	.46****	Increase capacity utilization
Japanese firms' model	.34****	Reduce fixed personnel costs
<u>Increasing Cash Flow:</u>		
American firms' model	.35**	Increase capacity utilization
	.26*	Eliminate unprofitable products
	-.23*	Renegotiate credit lines and debt
Japanese firms' model	.31**	Reduce fixed personnel costs
	.24*	Renegotiate credit lines and debt
	.22*	Increase capacity utilization
<u>Increasing Employee Morale:</u>		
American firms' model	.33****	Renegotiate credit lines and debt
	.28**	Reduce fixed personnel costs
	.24*	Eliminate unprofitable products
Japanese firms' model	.34****	Increase capacity utilization
	.23*	Renegotiate credit lines and debt
<u>Increasing Sales Growth:</u>		
American firms' model	.50****	Increase capacity utilization
Japanese firms' model	.36****	Increase capacity utilization
<u>Decreasing Unit Labor Costs:</u>		
American firms' model	.33****	Increase capacity utilization
	.27*	Renegotiate credit lines and debt
	.21*	Eliminate unprofitable products
Japanese firms' model	.38****	Increase capacity utilization
	.21*	Renegotiate credit lines and debt

* Significant at the .05 level for the *F* statistic.
 ** Significant at the .01 level for the *F* statistic.
 *** Significant at the .005 level for the *F* statistic.
 **** Significant at the .001 level for the *F* statistic.

products, adopting gain-sharing, and raising product prices. For Japanese firms, decreasing account profitability and product line profitability led to eliminating unprofitable products, adopting profit-sharing, renegotiating credit lines and debt, increasing capacity utilization, and reducing fixed personnel costs. American strategies were similar to Japanese strategies for only two turnaround antecedents; for example, increasing financial expense led to renegotiating credit lines and debt.

Several turnaround strategies yielded differential competitive advantages between American and Japanese firms but some strategies, such as increasing capacity utilization, led to similar results, as in Table 3. Only for the American firms, the elimination of unprofitable products was related to increasing return on investment, increasing cash flow, increasing employee morale, and decreasing unit labor costs. In contrast, reducing fixed personnel costs led to increasing return on investment, increasing operating profit margin, and increasing cash flow only for the Japanese firms.

The most frequent strategy action, increasing capacity utilization, was related to similar results for American and Japanese firms. Greater capacity utilization led to increasing return on investment, increasing cash flow, increasing sales growth, and decreasing unit labor costs. The predominant effect of increasing capacity utilization supports a previous cross-sectional study of corporate financial data [23]. Greater capacity utilization would also be consistent with a more recent study of 301 American executives concerning how their firms have confronted Japanese competition [35]. The most frequent strategy was investment in more efficient plant and equipment, which was elected by twenty-seven percent of the American firms.

The pragmatic implications of the present survey of turnaround situations focus on successful proactive strategies for American and Japanese electronics firms. At the risk of over-generalization, the traditional American competitive advantages have included industry associations that lobby for government support, computer-oriented production techniques, and superior marketing strategies for the North American market. In contrast, the traditional Japanese competitive advantages have been government subsidized global marketing information, superior human resource practices in terms of productivity and teamwork, low-cost debt financing, and high quality production. However, the competitive equilibrium can shift rapidly due to unanticipated environmental changes, for example, the doubled dollar/yen exchange rate from 1985 to 1987, as well as the punitive 1987 U.S. tariffs on Japanese electronic products. As the present study revealed, the greater financial difficulties faced by Japanese electronics firms led to the continuation of traditional practices such as the *bonasu* profit-sharing system and recent strategies such as raising product prices. Although these strategies seem to have yielded minimal profitability results, the Japanese firms are renown for emphasizing long-range rather than short-range results.

This study indicates that American and Japanese firms have implemented proactive production strategies such as increasing capacity utilization during a time of rising costs. Given the significant effect of greater capacity utilization on all of the turnaround result measures, investment in more efficient plant and equipment appears to command a preeminent consideration for the future. American and Japanese

firms can be expected to continue to expand the implementation of proactive strategies such as greater capacity utilization and productivity gain-sharing or nondeferred profit-sharing. However, present production and human resource competitive advantages may diminish in favor of marketing and financial strategies as Japanese society matures and the American market changes. To remain successful in a rapidly changing environment, an American or Japanese corporation must fully exploit its present competitive advantages as well as aggressively seek new strategic opportunities and plan for future threats.

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