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BLIND PURSUIT OF STRATEGIC GOALS: AN EXAMINATION OF MIDDLE MANAGERS' STRATEGIC ORIENTATIONS IN JAPANESE FIRMS*

Masaru Karube** and Toshihiko Kato***

Abstract

This paper reports the symptoms of strategic problems through examining the current status of business strategies in Japanese firms. Based on data collected through a questionnaire survey in 2006 from 128 business units in 16 Japanese firms, this paper examines the relationships between business strategies pursued by middle managers and their performance. The empirical results suggest that middle managers blindly pursue less effective business strategies (e.g., pursuit of scale economies, market share, and excessive product differentiation) even in the face of environmental change—from the market growth stage to the maturity stage in the late 1990s and thereafter. Finally, this paper proposes some managerial implications for their recovery from dysfunction of business strategy.

Keywords: business strategy, strategic goal, market share, product differentiation, management literacy in strategy

I. *Introduction*

As the expression "Lost Decade" concisely expresses, the 1990s and the period thereafter were decades of long-term economic recession, whereas the decades from the 1960s through the 1980s were appraised as an Asian miracle. Many Japanese firms have struggled against low business performance especially since the so-called collapse of the bubble economy. Journal articles and the popular economic press highly evaluated the competitive advantage of Japanese-style management. However, the recent academic literature has more focused on the downside of Japanese-style management: "lack of strategy" by Porter, Takeuchi & Sakakibara (2000) and "dysfunction of corporate strategy" by Mishina (2007).

In explaining the recent declining tendency of organizational performance among Japanese firms, many scholars have disputed the root cause of the recent decline from various points of

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** Institute of Innovation Research, Hitotsubashi University, Naka 2-1, Kunitachi, Tokyo 186-8603, JAPAN. Email: karube@iir.hit-u.ac.jp

*** Graduate School of Commerce and Management, Hitotsubashi University, Naka 2-1, Kunitachi, Tokyo 186-8601, JAPAN. Email: cc00622@srv.cc.hi-u.ac.jp

view. The first typical explanation is to attribute the main cause to the macroeconomic policy of the Bank of Japan (BOJ) and the Ministry of Finance before and after the “bubble burst” around the early 1990s, presupposing that failure of monetary policy had created and burst the economic bubble. The second is to attribute the main cause to the institutional practices of Japanese firms. Institutional practices such as long-term employment and seniority-based wage systems or the governance structure of disregarding stockholders are frequently counted as root causes. In other words, Japanese corporate systems and Japanese ways of management became obsolete and malfunctioned when confronted with the coming environmental change in the 1990s and thereafter. The third is to attribute the main cause to internal factors such as malfunction of strategic decisions (Mishina, 2007) and lack of strategic decisions per se (Porter, Takeuchi & Sakakibara, 2000).

If the poor performance of Japanese firms were considered only as a result of uncontrollable external factors, the role of corporate/business strategies would be quite limited. However, corporate executives and middle managers themselves are not fully constrained by external environmental factors. Rather, they should have organizational resources and chances to proactively respond to the new competitive environment ahead of external changes and competitors’ maneuvering.

Reflecting the fact that different perspectives have provided us with different explanations, the recent literature does not necessarily specify the root causes of erosion of the competitive advantage of Japanese firms. In this paper, by shedding light on the strategic behavioral side of Japanese firms, we specifically focus on the dysfunction of business strategy pursued by middle managers within Japanese firms on the premise that a critical issue that corporate executive and middle managers should tackle is the malfunction of business strategy. We therefore concern ourselves with the kinds of strategic problem inside Japanese firms that have lead to their recent economic quagmire. This directs us to two pairs of closely related research questions.

1. What are recent behavioral characteristics of middle managers in Japanese firms in the light of strategic orientations and goals when they pursue their business strategy?

2. How are these behavioral characteristics interconnected with each other and related to organizational performance?

To answer these questions, this paper explores the strategic issues that we believe Japanese firms should tackle from a strategic management perspective. Inductive field work and statistical analysis respectively indicate the following three findings: (1) higher market share leads to higher profitability, whereas middle managers’ strategic orientation to pursue market share negatively affects profitability especially at the market maturity stage; (2) middle managers’ orientation that emphasizes product differentiation is extremely high, whereas the absolute level of their orientation does not affect profitability; (3) simultaneous pursuit of product differentiation strategy and low cost strategy negatively affects profitability.

These empirical findings suggest that there exist managerial problems in strategic decision-making and implementation processes among middle managers in Japanese firms. Based on the insights of previous studies on the roles of middle managers in the strategic management literature, we conjecture that Japanese middle managers should reconsider the efficacy of their strategic goals that they implicitly pursue especially at the stage of market maturity. In conclusion, we discuss some managerial implications not only for Japanese practitioners but also for practitioners focusing on the effectiveness of Japanese management.

II. *Research Background and Hypothesis*

1. Determinants of Profitability

Business strategy and corporate strategy respectively play different roles in different domains of competitive strategy. Based on the short-/mid-term horizon, the role of business strategy is centered on the issue of strategic adaptation to a given market. Based on the long-term horizon, on the other hand, the role of corporate strategy is focused on the issue of strategic resource allocation among different business units that intend to adapt to a given market. In the case of diversified firms, business strategy should be in tandem with corporate strategy, and both of them are indispensable for the realization of competitive advantage against competitors. In the case of firms with a single business, the role of business strategy is of utmost importance because the resource allocation issue does not arise at least in the short run.

Regardless of the organizational form, whether it be a U-form with a single business or an M-form with multiple businesses, we believe it better to start by examining the role of business strategy rather than the role of corporate strategy because a business unit is considered to be a minimum organizational unit in which business strategy should be pursued to realize adaptation to the environment, and business strategy in turn should function to maintain or improve competitive advantage over competitors in a given market. Moreover, effective business strategy is a prerequisite for the realization of effective corporate strategy.

Looking back on the issues of the link between internal/external factors and profitability in the previous literature, different perspectives have provided us with multiple and sometimes competing explanations as to why certain industries, firms, or businesses outperform others (e.g., Beard & Dess 1981; Stimpert, 1997; White & Hamermesh 1981): (i) the first research stream is to explain the difference in profitability at the industry level by shedding light on the SCP (structure-conduct-performance) paradigm; (ii) the second stream is to explain the difference in profitability at the firm level by shedding light on the different market positions in a given industry or in a given market structure; (iii) the third stream is to explain the difference in profitability at a more micro level, such as the division and/or business unit level by focusing on the relative cost, price, and quality of a given product and/or service.

Under the "SCP paradigm," the first stream focuses on the role of market structure (White & Hamermesh, 1981). The second research stream puts more emphasis on the differences between firms in a given industry or in a given market by shedding more light on the roles of the proactive (strategic) behaviors of firms although its theoretical standpoint is affected by the classical theory of industrial organization in the sense that it still pays attention to the roles of market structure.

As for the second research stream, there are at least three different sub-streams: (ii–1) classical IO-based studies that focus on the roles of market structure and the positions of firms in the market (e.g., Bain, 1959; Caves, 1964; Gale, 1972; Porter, 1979; Porter, 1980; Porter, 1981, Scherer, 1980); (ii–2) "structural contingency theory" that focuses on the roles of fit between internal organization and external environment (Burns & Stalker, 1961; Donaldson, 2001; Forte, Hoffman, Lamont & Brockmann, 2000; Galbraith, 1973; Lorsch & Morse, 1974);

(ii–3) diversification studies (Berry, 1975; Bettis, 1981; Gort, 1962; Hoskisson & Hitt, 1990; Lamont & Anderson 1985; Markides 1996; Palich, Cardinal & Miller, 2000; Rumelt, 1982; Singh & Montgomery, 1987) and resource (competence)-based theories (Barney, 1991; Foss, 1993; Itami, 1987; Mahoney & Pandian, 1992; Wernerfelt, 1984) that focus on the roles of managerial resources that are rare and inimitable.

Moreover, as for the third stream that focuses on the differences in profitability at the divisional or business unit level, the stream can be classified into the following three sub-streams: (iii–1) the first sub-stream examines the links between types of business strategy and performance (Dvir, Segev & Shenhar, 1993; Galbraith & Schendel, 1983; Hambrick, 1980; Miles & Snow, 1978; Wright, 1987); (iii–2) the second sub-stream has been called PIMS studies initiated in 1970 as a project of the Marketing Science Institute (MSI), seeking to identify the factors associated with differences in business performance and quantify their impacts. PIMS studies found that the most important profit influences were market share, relative product quality, capital intensity, capacity utilization, and labor productivity (Buzzell & Gale, 1987; Buzzell, 2004); (iii–3) the third sub-stream pays more attention to the fit among strategy, environment, and organizational structure/process rather than just looking at the fit between environment and strategy to explain performance differences (Cowherd & Luchs, 1988; Davis & Schul, 1993; Ginsberg & Venkatraman, 1985).

A substantial amount of previous research in strategic management has examined the determinants of organizational performance at different units of analysis with different theoretical backgrounds, revealing a complex picture of the links with performance. When we attempt to examine the strategic problems of Japanese firms, we believe it is important to start by shedding light on the link between middle managers' behaviors and business unit performance on the premise that middle managers are central to explaining key organizational outcomes (Nonaka, 1988; Wooldridge, Schmid & Floyd 2008).

2. Strategic Goals and Performance

Strategy process research has emphasized the importance of time-based analysis of the dynamic nature of strategy by treating strategy as a process rather than a state (Pettigrew, 1992). To capture the processual nature of the strategy formation process, strategy research makes a distinction among intended strategy, unrealized strategy, deliberate strategy, emergent strategy, and realized strategy. Intended strategy literally refers to formal plans with precise strategic intentions, missions, and visions for the desired future of a firm, while realized strategy refers to current patterns of the firm out of past activities. Further, deliberate strategy refers to fully realized plans and intentions, while unrealized strategy refers to unrealized plans and intentions. Emergent strategy is a realized pattern in a stream of decisions that was not expressly intended (Mintzberg & Waters, 1985).

Intended strategy is not always fully realized in the form of deliberate strategy or in the form of fully realized strategy because of the unintended consequences on the way to implementing formal plans. Ex-post strategic maneuvering by competitors and environmental change in markets and technology, for example, can be sources of such consequences. Thus, when we research links between firm strategy and performance, we can predict that a relationship between realized strategy and performance is more likely to be observed and to be stronger than the relationship between intended strategy and performance. The disconnection between intended strategy and realized strategy (or performance) is not a matter of good or bad in essence because intended strategy, for example, can take the form of blind pursuit of initial plans thereafter neglecting post hoc adaptation to environmental change, and also because realized strategy can become an ad-hoc undesirable response to change rather than an effective learning process. Rather, although it is difficult to overcome the methodological issues that clearly distinguish intended strategy from realized strategy, the downside of the disconnection between intended strategy and realized strategy in general can be formulated as issues of misperception in strategic decisions (Zajac & Bazerman, 1991) and strategic drift (Johnson, 1988), whereas the upside of the disconnection can be formulated as post-hoc strategic adaptation and learning process issues.

This paper in particular attempts to examine the downside of the disconnection between intended strategy and realized performance by focusing on the blind pursuit of initial strategic goals at the middle management level. Whereas the strategic priorities that middle managers perceive to be important used to be effective, such initial priorities do not necessarily serve to improve organizational performance afterwards because of the post-hoc strategic behaviors of competitors and environmental change.

Blind pursuit of strategic goals can be formulated as an issue of organizational inertia, strategic myopia, and biased managerial cognition. In particular, in a growing number of strategic management research based on the middle management perspective, the issue can be positioned in a stream of research that examines the link between organizational cognition and middle management involvement in strategy, raising the research question of how middle managers come with a certain strategic orientation that may influence their perceptions and turn their behavior toward pursuit of goals that are not necessarily optimal from the perspective of the organization's overall strategy (Wooldridge, Schmid & Floyd 2008). In their literature survey, Wooldridge, Schmid & Floyd (2008) call for future research that bridges cognitive approaches and behavioral approaches in explaining a middle management perspective on strategy.

As Bourgeois points out, the literature on normative planning and decision making usually prescribes consensus on goals with the implication that this will lead to coordinated strategies and, ultimately, higher performance (Bourgeois, 1980, 1985). Empirical findings on the link between managerial consensus and performance based on the middle management perspective, however, have provided mixed results (Kellermanns, Walter, Lechner & Floyd, 2005), whereby some literature suggests the importance of recognizing the effects of third variables that can moderate the link (e.g., Bowman & Ambrosini, 1997; Dess & Priem, 1995). For example, Bowman & Ambrosini (1997) examined the relationships among strategy content, consensus, and firm performance by taking into consideration how strategic priorities perceived by middle managers can be conditioned by environmental dynamism and environmental munificence. Their empirical results suggest that strategic business units with clearer priorities regarding positive strategic orientation outperform average performers in their industries (Bowman & Ambrosini, 1997).

Moreover, there is still limited evidence in the previous literature of how middle managers may pursue a certain intended strategy out of possible strategic options, and of whether a given intended strategy may evolve with environmental requirements over time. "Logical incrementalism" (Quinn, 1980) is a notion that sheds light on the upside of organizational adaptation to environmental changes in which a given organization keeps itself in line with environmental changes: strategic change, through environmental sensing by managers and continual testing out of new strategies, results in a positive learning and readjustment process.

However, as Johnson (1988) points out, “Managers may well see themselves as managing logically incrementally, but such consciously managed incremental change does not necessarily succeed in keeping pace with environmental change.” He refers to this situation as “strategic drift” caused by (1) lack of sensing, where managers fail to sense external stimuli because the stimuli are not meaningful in themselves, (2) biased belief where managers believe they are adapting to a changing environment, (3) resistance to deviant interpretations of the environment where managers are likely to yield to political pressure for conformity or marginal adjustment of strategy, (4) lack of remedial actions where managers are likely to fail to discern the strategic drift and take medial solutions within the paradigm, and (5) short-term efficacy where incremental remedial solutions demonstrating the efficacy of solutions at least in the short term may result in moving away from the environmental changes in the long term (Johnson, 1988).

Based on the findings by Johnson (1988), it follows that even if managers intend to realize incremental adaptation to environmental changes, they will fail to realize expected adaptation to the changes afterwards in the long run. Stated differently, if managers stick to pursuing initial strategic goals regardless of whether the change is incremental or radical, the efficacy of the goals will be lost in the long run and this in turn will result in performance decline. Thus, we derive the hypothesis based on the following two propositions.

Proposition 1: Because of environmental changes over time, the content of strategic goals that managers pursue should evolve over time in order to maintain or improve their organizational performance.

Proposition 2: This necessity to change strategic goals is not necessarily recognized by managers, so that they are likely to stick to the pursuit of strategic goals that they initially believed to be effective for their adaptation to the environment.

The first proposition concerns the dynamic fits among strategic goals, environment, and performance. The second proposition concerns managers' strategic orientations. Combining these two propositions, we derive the following hypothesis.

Hypothesis: Business units in which middle managers blindly pursue initial strategic goals underperform in profitability against business units in which middle managers redefine their strategic goals keeping pace with market change.

III. *Method*

1. Data Collection and Analysis

In this research, the unit of analysis is the business unit, and the unit is defined as a minimum organizational unit that intends to adapt to a given market. Following the definition, the methodological approach and the unit of analysis in this research are more similar to those of PIMS studies than recent empirical studies (Chang & Singh, 2000; McGahan & Porter, 2002) that examine the link between business strategy and profitability at the divisional or segment level by utilizing publically available data (FTC line-of-business data and Compustat segment data). Because of the confidential nature of data on business strategy and profitability at the business unit level, there has been little evidence regarding how business strategy is linked to profitability except in PIMS studies. Japanese management scholars have also called for empirical studies that explore the link; no systematic empirical studies, however, have been conducted except anecdotal case studies looking into such issues.

To fill this void, we launched a research consortium with participating firms to further our understanding on the relationship between organization, strategy, and performance at the middle management level. As Nonaka (1988) and Wooldridge & Floyd (1989, 1990, 1992) and Floyd & Wooldridge (1996, 2000) repeatedly suggest, middle managers are central to initiating and implementing strategic initiatives. Thus, to examine the link between strategic goals and performance at the business unit level, we believe that focusing on middle managers' behaviors and their strategic orientations is a good starting point to examine the issue.

We first sent invitation letters to the potential pool of Japanese firms that were listed in the first section of the Tokyo Stock Exchange in order to ask them to participate in our research consortium with a nondisclosure agreement. We then conducted interviews with corporate staff managers in participating firms to identify the business units in each firm, individual respondents in each business unit, and concrete managerial problems at the frontline of each business unit. After the interviews, we sent questionnaires to the respondents in December 2006 via a staff manager in a corporate personnel or planning department. In total, we collected questionnaires from 128 business units in 16 firms. Their business units belong to different industries: electronics, machinery, chemical, pharmaceutical, oil refinery, food, transportation, and service-related industries.

To test the hypothesis, we conducted bivariate correlation analysis and hierarchical regression analysis.

IV. *Measurement*

1. Independent Variables

Strategic Goals: As suggested in the study of Bowman & Ambrosini (1997), in order to explore the content of business strategy, we adopted Porter's (1980, 1985) and Venkatraman's (1989) typology. Specifically, we took up the following six strategic goals (see Table 1): (1) "pursuit of low cost"; (2) "emphasis on product differentiation"; (3) "wider coverage of product line"; (4) "pursuit of basic functions of a product and service"; (5) "pursuit of sales volume"; and (6) "pursuit of market share." The first three goals respectively correspond to "cost leadership strategy," "differentiation strategy," and "focus strategy" in terms of generic strategy proposed by Porter (1980).

Moreover, "pursuit of basic functions of a product and service" is a strategic goal that corresponds to the concept of "relative quality" that previous PIMS studies proposed to characterize business strategy. "Pursuit of sales volume" is a strategic goal that many Japanese practitioners still believe is likely to be critical even at the stage of market maturity and/or decline. Finally, "pursuit of market share" is a strategic goal that can be characterized as aggressiveness of strategic orientation (Venkatraman, 1989) or as one of the most important strategic goals among Japanese firms (Kagono, Nonaka, Sakakibara & Okumura, 1985). We

TABLE 1. BIVARIATE CORRELATION BETWEEN A BUSINESS UNIT'S STRATEGIC GOALS, MARKET STAGE, AND PERFORMANCE

		Organizational performance			
	Mean S.D.	Cost advantage	Product quality advantage	Sales growth	Profitability
[Strategic goal]					
Pursuit of low cost	4.644 0.899	0.115 0.197	-0.178^{**} 0.044	−0.063 0.478	−0.062 0.484
Emphasis on product differentiation	5.841 0.687	−0.001 0.988	0.206^{**} 0.020	0.166^{*} 0.062	0.136 0.127
Wider coverage of product line	4.145 0.841	0.230^{***} 0.009	0.318^{***} 0.000	0.338^{***} 0.000	0.354^{***} 0.000
Pursuit of basic functions of a product and service	4.092 0.789	−0.008 0.926	0.244^{***} 0.006	0.157^{*} 0.076	0.149^{*} 0.093
Pursuit of sales volume	3.347 0.851	-0.274^{***} 0.002	-0.147^{*} 0.098	-0.295^{***} 0.001	-0.257^{***} 0.003
Pursuit of market share	3.808 0.909	0.163^{*} 0.066	0.023 0.796	0.173^{*} 0.051	0.222^{**} 0.012
[Market environment]					
Maturity stage	3.320 1.256	−0.110 0.217	−0.012 0.895	-0.269^{***} 0.002	-0.229^{***} 0.009

The upper row is a coefficient of Pearson's bivariate correlation. The lower row is a significance probability.
*** $p<0.01$, ** $p<0.05$, * $p<0.10$, $N=128$.

asked respondents to rate the six strategic goals of their business unit on a 7-point Likert-type scale (1= "completely disagree," 2, 3, 4= "cannot say either way," and 5, 6, 7= "completely agree") by asking them the following question: "To what extent do you think each of the following statements applies to your business unit?" We then respectively created business unit-level measures for the six strategic goals by calculating the arithmetic mean of six respondents (three middle managers and three lower managers in the hierarchy) in the BU.

Market environment: Based on the standard product life cycle theory, we can expect average profitability to decline especially at the market maturity phase (e.g., Kotler, 1980). To measure the degree of market maturity, we asked the corporate staff in each business unit the following question in the questionnaire: "Which market stage is the main product or service of your business unit situated in?" The respondent could choose from the following: (1) the introduction stage at which sales volume has just started to increase and potential customers do not necessarily recognize the product or service; (2) the growth stage at which sales volume increases significantly (annual growth rate of market size increases more than 10%), and technology and market structure are in flux; (3) the maturity stage at which many customers recognize the product or service and the annual growth rate of market size increases more than 2%; (4) maturity stage II at which many customers recognize the product or service and the annual growth rate of market size remains unchanged; (5) the decline stage at which the market size has continued to decrease and some less competent firms have started to exit the market.

Taking into consideration the recent effects of digitalization and commoditization that make it more difficult to outperform competitors in product technological performance and services (e.g., Grant, 1998), we can expect profitability to decrease in keeping with market maturity.

Market position: To assess an objective measure of market position as a control variable, we asked the corporate staff in each business unit to rate the absolute values of a focal business unit's market share and their top three competitors' market share. The answer required a percentile ranging from 0 percent to 100 percent.

Buyer's power: To measure the power of buyers as a control variable, we asked the corporate staff in each business unit to rate the sales ratio of their top three buyers to the total amount of sales in each business unit. The ratio was to be expressed as a percentile ranging from 0 percent to 100 percent.

Supplier's power: To measure the power of suppliers as a control variable, we asked the corporate staff in each business unit to rate the procurement ratio of their top three suppliers to total purchasing expenses in each business unit. The ratio was to be expressed as a percentile ranging from 0 percent to 100 percent.

2. Dependent Variable

Organizational performance: To measure organizational performance, we asked the respondents to rate their subjective measures of relative business unit performance over competitors for four question items (cost advantage, product quality advantage, sales growth, and profitability) on a 7-point Likert-type scale (1 = "Far behind main competitors," 2, 3, 4 = "Same as main competitors," and 5, 6, 7 = "Far ahead of main competitors") by asking them the following question: "To what extent do you think each of the following statements applies to your business unit?" The respondents were also asked to assume their main competitors to be their top three competitors in a given market. In addition, we also collected ROS (return on sales) data as an objective measure of business unit performance. The correlation between a subjective measure of profitability and realized ROS was 0.481, and the correlation between a subjective measure of profitability and expected ROS was 0.479. In the following regression analysis, we used subjective measures of organizational performance.

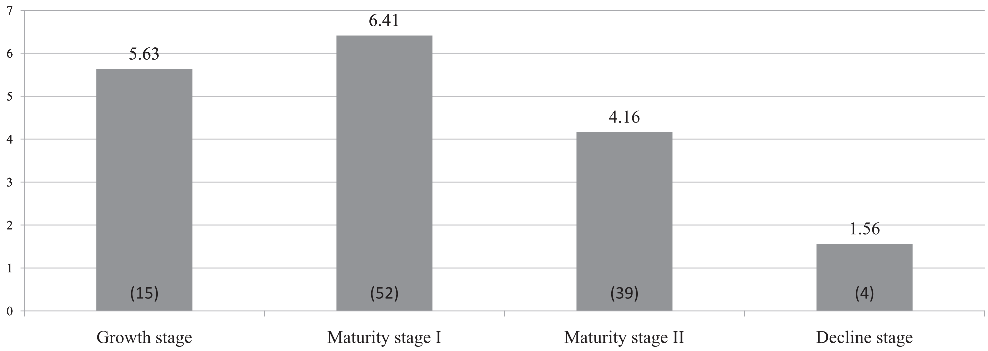
V. *Results*

1. Descriptive Statistics

Figure 1 shows that profitability (return on sales) peaked at maturity stage I and declined at later stages. Table 1 shows descriptive statistics of six strategic goals and one market environment variable (market maturity stage), and it also shows Pearson's bivariate correlations with four organizational performance variables. We can point out the following facts.

1. The mean value of "emphasis on product differentiation" (mean = 5.841) is much higher than those of other strategic goals, suggesting that business units, at least those in our sample, are likely to emphasize product differentiation. However, the correlation between "emphasis on product differentiation" and profitability is not statistically significant (0.136, *n.s.*).
2. The second-largest mean value among strategic goals is "pursuit of low cost" (mean = 4.644). "Pursuit of low cost" is uncorrelated not only with "sales growth" and

Fig 1. Return on Sales (%) by Market Stage



Figures in parentheses are numbers of business units by market stage, N=110

"profitability" but also with "cost advantage" that should have been realized. This finding suggests that middle managers *failed to realize* cost advantage although they had *intended* to pursue the low cost strategy.

3. "Wider coverage of product line" is positively correlated with all four performance variables at the 1 percent significance level (0.230, $p<0.01$; 0.318, $p<0.01$; 0.338, $p<0.01$; 0.354, $p<0.01$). However, it seems difficult to interpret it as the fact that a wider product line could directly improve performance. Rather, it seems more plausible to interpret this finding as the fact that a wider product line could be a result of higher organizational capability, higher market power to realize a wider product line, or higher market orientation that in turn could serve to improve organizational performance.
4. Whereas the mean value of "pursuit of sales volume" is the lowest among six strategic goals (mean = 3.347), it is negatively correlated with three performance variables except "product quality advantage" at the 1 percent significance level (−0.274, $p<0.01$; −0.295, $p<0.01$; −0.257, $p<0.01$), suggesting the possibility that pursuit of scale-up strategy can have a negative effect on performance, or the possibility that business units in our sample are stuck in a situation in which they are forced to pursue scale-up strategy even if they themselves recognize the negative effects.
5. The result of "pursuit of market share" was expected to be the same as that of "pursuit of sales volume." However, "pursuit of market share" is positively correlated with profitability at the 5 percent significance level (0.222, $p<0.05$). In the next section, we further examine whether "pursuit of market share" can help to improve profitability.
6. "Market maturity" is not correlated with "cost advantage" and "product quality advantage." However, it is negatively correlated with sales growth and profitability at the 1 percent significant level (−0.269, $p<0.01$; −0.229, $p<0.01$).

2. Regression Analysis

To further examine the effects of strategic goals and market environment on organizational performance at the business unit level, we conducted hierarchical regression analysis. In this paper, we explore business unit profitability as a dependent variable in each regression model.

TABLE 2. RESULTS OF REGRESSION ANALYSIS

	Model I	Model II	Model III	Model IV
[Strategic goal]				
Pursuit of low cost	0.100	0.097	0.068	0.148
Emphasis on product differentiation	−0.035	−0.064	0.004	0.040
Wider coverage of product line	0.305***	0.316***	0.320***	0.283***
Pursuit of basic functions of a product and service	0.160	0.159	0.138	0.138
Pursuit of sales volume	−0.378***	−0.359***	−0.311***	−0.340***
Pursuit of market share	0.204**	0.153	0.138	0.109
[Market phase]				
Market maturity		−0.137	−0.171**	−0.178**
[Interaction term]				
Pursuit of market share × market maturity			−0.180**	−0.186**
Pursuit of low cost × product differentiation			−0.151*	−0.144*
[Market position and buyer (supplier) power]				
Market share				0.174**
Buyers' power (top 3 firms)				−0.144*
Suppliers' power (top 3 firms)				−0.014
N	128	128	128	113
F value	7.218***	6.633***	6.339***	5.371***
Adjusted R2	0.227	0.237	0.274	0.319

Coefficients in the table are standardized.
The mean centering procedure is applied to variables in interaction terms.
*** p<0.01, ** p<0.05, * p<0.10

As shown in Table 2, model I is a baseline model that includes only six variables related to strategic goals as independent variables. Model II includes six strategic goals and "market maturity." In model III, two interaction terms ("pursuit of market share" by "market maturity" and "pursuit of low cost" by "product differentiation") are added. Finally, in model IV, three variables related to market position, buyers' power, and suppliers' power are added.

As the result of model I shows, the result of regression analysis is consistent with that of bivariate analysis, suggesting that "wider coverage of product line," "pursuit of sales volume," and "pursuit of market share" are respectively correlated with "profitability." However, as shown in model II, once "market maturity" is entered, the coefficient of "pursuit of market share" becomes insignificant even at the 10 percent significance level. Moreover, as shown in model III with two interaction terms ("pursuit of market share" by "market maturity" and "pursuit of low cost" by "product differentiation"), the coefficients of interaction terms are respectively negative and statistically significant. Finally, as shown in model IV with three additional variables related to the relationship between market position and buyers (suppliers), the coefficient of "market share" is positive and statistically significant, and the coefficient of buyers' concentration is negative and statistically significant.

The empirical results of the four models in Table 2 can be summarized as the following four points. First, whereas pursuing market share per se cannot have a significant positive effect on profitability, such strategy may have a negative effect in keeping with market maturity. Second, although market share orientation does not have a significant positive effect on profitability, the absolute level of market share has a positive effect on profitability. Market share orientation does not have a significant correlation with market share, suggesting that business units in our sample are likely to pursue market share regardless of the current absolute level of market share. Third, whereas "pursuit of low cost" and "emphasis on product differentiation" do not independently serve to improve profitability to a significant degree, the simultaneous pursuit of both goals can serve to decrease profitability. Fourth, while buyers' power can have a negative effect on profitability, suppliers' power does not have any effect on profitability. These asymmetrical findings between buyers' power and suppliers' power are open to multiple possible explanations. (1) The first possible explanation is to attribute these asymmetrical findings to differences between the procurement department and sales department within a business unit in terms of their sensitivity to and controllability of the concentration of suppliers or buyers. In our survey, looking into the power distribution among functional departments, the power of the procurement department is higher than the others, suggesting that procurement departments in general succeed in mitigating the power of suppliers, while sales departments fail to mitigate the power of buyers. (2) In addition, Japanese middle managers in procurement departments have been trained to implement competitive bidding and parallel procurement. In contrast, it seems that middle managers especially in sales departments are likely to prioritize the volume of sales while lacking a perspective on how customers should be controlled or influenced. (3) Further, in some industries, we may attribute this asymmetrical result to the oligopolistic market structure in the downward stream of the value chain.

To illustrate the results of regression analysis, an exemplary case of a business unit within one large diversified firm that one of authors has observed is shown in the following section.

3. An Exemplary Case: Dysfunction of Business Strategy

A focal business unit, which we tentatively call the "ABC business unit" for the sake of confidentiality, faced market maturity in which it was difficult to realize product differentiation. In addition, because its market position was far behind its competitors, ABC's performance remained stagnant. To break this stalemate, an investment plan of the largest scale in the industry was proposed, and it was finally authorized to expand production capacity and to increase productivity. In tandem with this scale-up strategy, ABC pushed aggressive marketing activities mainly towards the main customers of its competitors in order to increase its market share. Moreover, ABC accelerated the speed of technological development activities over competitors, which in turn succeeded in launching a series of new products with the highest technological performance in the industry.

Although such unified managerial efforts through corroboration among the R&D department, production department, and sales department within ABC could be recognized as quite reasonable, different from their initial expectations, such strategy resulted in maintaining in the same market share and falling into the red. ABC's exemplary case provides us with some clues to interpreting the results of the regression analysis. (1) The first is a strategic orientation that pursues market share even at the market maturity stage. (2) The second is a strategic orientation that pursues technological product differentiation in the field of commoditized products and services. (3) The last is a strategic orientation that simultaneously pursues low cost strategy and product differentiation without any explicit thoughtful reasons. As indicated in the results of regression analysis, these three strategic orientations have a negative or no relationship with profitability. Therefore, we guess the root cause behind such failure to be the a priori irrational scenario-planning process shaped and evolved among managers rather than ex post external change of the market environment.

VI. *Discussion*

Because of the explorative nature of this research, this paper examines only some of the factors related to business strategy and performance and their links. However, our empirical findings suggest that such a limited number of strategic goals explains the differences in business unit performance to some extent, implying that organizational performance can be improved by redefining strategic orientation.

1. Excessive Pursuit of Market Share and Sales

As suggested by previous PIMS studies, the strategy literature on the relationship between market share and profitability repeatedly suggests that there is a positive relationship between market share and profitability (e.g., Szymanski, Bharadwaj & Varadarajan, 1993). Based on the meta-analysis of 276 market share-profitability findings from 48 studies, Szymanski, Bharadwaj & Varadarajan (1993) found that market share had on average a positive effect on business profitability, while the magnitude of the market share-profitability relationship is moderated by model specification errors, sample characteristics, and measurement characteristics. The findings of this paper also show that market share has a positive effect on profitability.

Assuming this positive relationship, we believe it used to be rational behavior for Japanese middle managers to pursue market share as one of their supreme strategic goals. However, building a high market share can be effective only when their businesses are at the growth stage. Following the insights of recent game theory-based developments, some textbooks also provided us with the logic to explain this situation (Brandenburger & Nalebuff, 1996; McAfee, 2002): At the market maturity stage where no further market growth is expected, the only way to increase market share is to take away competitors' customers. In this situation with competitors being rational and with lack of a focal business unit's overwhelming advantage against competitors, once a focal firm starts cutthroat price competition, competitors would follow such behavior. In other words, excessive aggressiveness in pursuing market share only leads to price collapse afterwards, suggesting that managers should not pursue market share at the maturity stage except in cases where a focal business unit has overwhelming competitive advantage and in cases where it is ensured that competitors will not react to the focal business unit's behavior.

However, the fact that the interaction term between "pursuit of market share" and "market maturity" has a significant negative effect on profitability suggests that managers at least within Japanese firms are not likely to reflect on the downside of pursuing market share at the maturity stage. As shown in Figure 1, for example, business units at the growth stage only amount to 15 business units out of 110 business units in total. On the other hand, of the remainder of the sample, the mean value of "pursuit of market share" among around 50% of business units was above 4 points, suggesting that managers still emphasize building market share.

Moreover, the reason that "pursuit of sales volume" does not necessarily result in effective business strategy can be explained by the same logic as above. It has been pointed out that it can be rational to pursue sales volume at the expense of profit at least in the short run especially in capital-intensive industries. However, this strategy can be effective only if a focal firm's behavior does not have any effect on competitors. If competitors followed the behavior by increasing sales volume as well, it would trigger a crash. We believe that one possible reason that Japanese firms pursue this self-defeating strategy may be the possibility that they envision their future strategic scenarios with an egocentric perspective without anticipating the final market situation shaped by multidimensional and time-based interaction with competitors.

2. Excessive Pursuit of Product Differentiation

The strategic goal that managers emphasized most was "pursuit of product differentiation" based on their organizational competence. However, the regression analysis suggested that "pursuit of product differentiation" did not have any effect on profitability. As a possible explanation of the mechanism behind this phenomenon, we can point to the persistent gap between what firms believe customers need and what customers really need: managers in Japanese firms have striven to improve the existing technological performance of products and add new technological functions to the latest models. However, in many cases, most customers do not recognize the difference between an existing model and the latest model, and they are not necessarily willing to pay the extra price for the latest model, for example. The same can be said of the exemplary case of ABC's business units: R&D staff pursued development of the latest product from a perspective purely based on technological dimensions that resulted in boosting R&D costs, while most customers did not recognize its merit. Afterwards, the latest product experienced lagging sales.

The point that we would like to insist on is not that product differentiation based on technological development is meaningless, but that managers should become more concerned about what customers really need. In other words, whether customers recognize the added value of new products and services does not depend solely on technological newness, but on how customers perceive such newness as useful in their local contexts.

3. Simultaneous Pursuit of Product Differentiation and Low Cost

Finally, we examine the possibility that simultaneous pursuit of product differentiation strategy and low cost strategy may have a negative impact on profitability. Our findings are consistent with Porter's (1985) in that he insisted that cost leadership strategy cannot coexist with product differentiation strategy. On the other hand, some previous studies insisted that they can coexist (Baden-Fuller & Stopford, 1992; Buzzell & Gale, 1987), criticizing the work of Porter (1985). Based on these mixed findings, asking whether the two strategies can coexist depending on the local context is a reasonable question.

Assuming a U-shaped relationship between market share and profitability, Porter originally intended to claim that being stuck in the middle of cost reduction and product differentiation should be avoided at all costs. Pursuing low cost and product differentiation at the same time by halves does not necessarily lead to competitive advantage. The finding that the interaction term between low cost and product differentiation has a negative effect on profitability can be interpreted as a reflection of the fact that managers fail to realize the simultaneous pursuit of low cost and product differentiation, whereas they initially intended to realize a coherent strategy by pursuing two different strategies.

VII. *Conclusions and Implications*

1. Common Strategic Issues in Japanese Firms

In closing our discussion, we point out the following three interrelated strategic issues that middle managers and management executives should reconsider.

First, our empirical findings suggest the possibility that Japanese firms may not be necessarily operated in a way that is based on the basic insights of strategic management. Rather than stressing the idiosyncratic characteristics of Japanese firms, the findings suggest the dysfunctional state of initiating and implementing strategic initiatives in Japanese firms, implying that practitioners should utilize basic insights and recent developments in our understanding of strategic management for the improvement of their businesses.

Second, our findings also suggest the possibility that Japanese management may be hampered by organizational inertia. Such inertia could be epitomized by blind pursuit of initial strategic goals: such goals become ineffective, whereas they used to be effective. Excessive reliance on rules of thumb on the front line of business can cause such dysfunctional blind pursuit. In essence, business strategy and its constituent strategic goals should evolve over time in keeping pace with environmental changes. However, if responsible middle managers are obsessed with old-fashioned rules of thumb, it is difficult to recover from a stagnant or declining situation. Thus, we believe that managers and executives should reflect on the intrinsic meanings and usefulness of “theory-in-use” in their minds rather than unconsciously or uncritically utilizing “their theories.”

Third, reflecting the egocentric characteristics of middle managers’ strategic orientations in Japanese firms, the findings imply that managers should take more into consideration the effects and outcomes of their dependency on competitors, customers, and other stakeholders. Behaviors of competitors and customers, for example, are what we call a “moving target.” Therefore, in initiating and implementing strategic initiatives, managers should explicitly consider a stream of possible options in decision making over time in keeping pace with competitors and customers’ responses.

2. Practical Implications

Combining the insights of the previous literature with our empirical findings, we believe it imperative for managers and executives in Japanese firms to learn the essence of basic insights into business strategy from accumulated knowledge in the field of strategic management in order to envision a more effective strategy. Saegusa, a famous and renowned strategist, points out that Japanese managers need more basic knowledge that is indispensable for running their business, and he calls this “management literacy” (Saegusa, 2001).

Surprisingly, our findings are consistent with the dysfunctional situation he refers to as “lack of management literacy” in business strategy. In order to safeguard against a dysfunctional situation and to overcome this problem, in addition to the importance of on-the-job training by managers themselves, hands-on coaching from experienced managers or top executives to inexperienced managers is considered to be important. Moreover, as an opportunity for off-the-job training, corporate universities and business schools can serve to provide managers with good double-loop learning opportunities. Business schools in Japan are expected to play such a role. However, in this light, Japanese management researchers should be more conscious than before of the relevance and rigorousness of their research at the same time.

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