DO MACROECONOMIC ENVIRONMENTS MATTER?

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This research examines the dynamic relationships of product and international diversification, keiretsu membership, and financial performance for the listed firms in Japan's textile industry using cross-sectional time-series data. The present study adopts a contingency approach as it incorporates the macroeconomic context into the resource-based view suggesting a macroeconomic environmental context-sensitive orientation of that view. The research thus attempts to integrate resource-based approaches with the environmental models by identifying the macroeconomic environmental environments, munificent or scarce, in which merits of specific strategies may become enhanced or undermined.

As the sample of the textile firms includes those with different technological origins and evolutionary patterns, the textile industry of Japan is an appropriate ground to test the long-term effectiveness of the specific types of diversification patterns, and resources and capabilities. Around half of the listed firms in that industry, then, have long-term ties with a keiretsu, which is argued to influence the financial outcomes of the diversification strategies that the companies adopt. The longitudinal swings of economic conditions from the economic boom year of the 1980s to the persistent depression of the 1990s in Japan gives an appropriate opportunity to test statistically the requirements for different matching of business models to specific macroeconomic environments. This study thus examines the dynamic relationships between key choices including product diversification, international scope, keiretsu affiliation and financial performance, as environmental conditions fluctuate. By taking a dynamic approach, using cross-sectional time-series data, the study also attempts to shed light on the inconsistent results of previous mostly static research, since temporal variability is argued to be one of the major factors behind the conflicting conclusions of past studies mentioned above (Grant, 2002, Mayer and Whittington, 2003, Colpan and Hikino, 2005). It ultimately aims to reveal the long-term dynamics of performance in different macroeconomic contexts.

The present research in the end has reached out the following major conclusions: Panel data analysis illustrates that the performance effects of strategic and institutional factors are contingent to macroeconomic environments, rather than showing fixed relationships. The potentially positive or negative effects of particular diversification strategies and keiretsu affiliation seem to be neutralized in the munificent environments, as exogenous economic factors overwhelm endogenous decision-making by the management. In the scarce setting, by contrast, it is those strategic and institutional factors that influence financial outcomes. Keiretsu membership then moderates the relationship between international diversification strategy and profitability positively only at times of economic scarcity.