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An empirical study of bridge individuals in Japanese companies**

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Locally recruited parent country nationals (PCNLs): An empirical study of bridge individuals in Japanese companies

Abstract

Rather than traditionally classifying employees working in multinational companies into parent country nationals (PCNs), host country nationals (HCNs), and third country nationals (TCNs), this study investigates a particular group of bridge individuals called PCNLs (locally recruited parent country nationals) and their bridging roles. With a qualitative study interviewing 60 bridge individuals working in 13 Japanese foreign subsidiaries in Germany and the Netherlands, this study aims to open a new debate on PCNLs, unpacking the dimensions of PCNLs' bridging roles, and explore the affecting factors on the dark sides of their bridging consequences. By integrating interdisciplinary areas, this study also uncovers if and how language skills and cultural skills can be utilized as resources that influence PCNLs' bridging roles.

Keyword: Cross-Cultural Research; Qualitative method; Headquarters-Subsidiary Roles and Relations; locally recruited parent country nationals (PCNLs); bridging roles; identification dissonance

INTRODUCTION

I do not really belong to the Japanese group, and I do not really belong to the Dutch...

Regarding identity, I think I am a local Japanese, not the same as local Dutch and also not only defined as a Japanese employee... (A Japanese PCNL working in the Netherlands)

It really creates a wall between the two groups, and you can feel it in the company once you have three groups: Japanese expats, Japanese locals, and the rest.... (A Dutch employee working in a Japanese subsidiary in the Netherlands).

In multinational companies (MNCs), the demographic of employees is becoming more complex and pluralistic. Traditionally, employees working in MNCs have been divided into parent country nationals (PCNs), host country nationals (HCNs), and third country nationals (TCNs). Nowadays, MNCs increasingly recognize the important role of individuals who internalize and identify with multiple cultures and languages (Brannen & Thomas, 2010; Fitzsimmons, Liao, & Thomas, 2017), rather than classifying employees only based on their nationalities. These types of employees play an important role in bridging between different languages, cultures, and locations such as the headquarter (HQ)-foreign subsidiary relationships and communication in multicultural teams. Expatriates, inpatriates, repatriates, these individuals often become bridge individuals, or individuals who have specific cultural and language skills and who act in bridging roles between different cultural and/or language groups in MNCs (Harzing, Köster, & Magner, 2011, Sekiguchi, 2016). Because of their multidimensional activities, bridge individuals are seen as knowledge-transferring nodes, gatekeepers, conduits for resource acquisition, and influence agents, with high language and cultural skills (Aldrich & Herker, 1977; Ancona & Caldwell, 1992; Barner-Rasmussen, Ehrnrooth, Koveshnikov, & Mäkelä, 2014).

The term *bridge individuals* began to be explicitly used in the field of international business in a series of studies by Harzing and her colleagues (e.g., Harzing et al. 2011; Harzing, Pudenko, & Reiche, 2016). Since then, several studies on international business have examined this type of individuals (e.g., Ebisuya, Sekiguchi, & Hettiarachchi, 2017; Dau, 2016). Similar terms include cultural

mediators, linking pins, go-betweens, bridge builders, cultural brokers, and boundary spanners (Ancona & Caldwell, 1992; Barner-Rasmussen et al., 2014; Harzing et al., 2011; Marschan-Piekkari, Welch, & Welch, 1999). Conceptually, bridge individuals can be understood as having the same functions as boundary spanners in the multilingual and multicultural context, such as information exchanging, linking, facilitating, and intervening (Barner-Rasmussen et al., 2014). Sekiguchi (2016) suggests that the concept of bridge individuals should be used in specific contexts such as multinational organizations, and bridging roles should focus on bridging between different linguistic, cultural and national groups.

Language skills can be a constitutive reason for effects on perceived power and status (Neeley, 2013; Neeley & Dumas, 2016; Vaara et al., 2005). When MNCs choose an official corporate language, native speakers or employees who have high corporate language proficiency are likely to embrace more language-based power or status (Neeley, 2013; Peltokorpi & Vaara, 2014; Tietze, Cohen, & Musson, 2003). On the other hand, nonnative speakers or those with relatively low language proficiency will experience a status loss (Neeley, 2013). Superior language proficiency can increase the influence of general power sources and reinforce the power differentials (Tenzer & Pudelko, 2017). Bridge individuals acting as “language nodes” (Marschan-Piekkari et al., 1999) or “linking pins” (Harzing et al., 2011) can access more information and bridge many clusters in their organization. Thus, they are likely to have more power resources and status. However, whether superior language skills can be an advantage to all bridge individuals and in what situations language can also trigger divergence and discordance have still not been articulated.

Because the concept of bridging roles and bridge individuals in the international business context has not received much attention from international business researchers until now with a few exceptions (e.g., Harzing et al., 2011; Sekiguchi, 2016), the concepts themselves and their roles are insufficiently investigated. Therefore, we do not have a clear understanding of the concept of the bridging role, including its underlying dimensions and the possible consequences of performing a bridging role by bridge individuals. In other words, we know little about what bridge individuals in MNCs actually do and what happens to those bridge individuals as a result of performing bridging activities. To address the aforementioned research gap, we start from a basic research question: *What*

is the essential nature of bridging activities in MNCs and what are the potential consequences when individuals perform bridging roles?

We conducted a preliminary qualitative study with 60 bridge individuals working in 13 Japanese foreign subsidiaries because the lack of extant literature on this topic prevented us from deductively developing a theory. Based on the interview study, we found a special group of bridge individuals, which we define as PCNLs (parent country nationals who are recruited from the host country). We developed a new concept and opened up a new debate on PCNLs. PCNLs are the most potential bridge individuals who are classified differently from PCNs and HCNs, with high level of language skills and cultural skills. However, their special position, role stress and dissonant group identification diminish their bridging role and accordingly leads to status loss. We investigate how the influence of PCNLs' bridging roles on status coincides with group identification, role conflict, role ambiguity, not only in terms of perceived status but also from the other employees' perspectives. These findings contributed to the refinement of the concept of PCNLs' bridging roles, the understanding of the negative consequences brought to the PCNLs when they perform the bridging roles, and the importance of group identification held by PCNLs.

THE STUDY

We employ a qualitative investigation to generate a new theory regarding the effect of the bridging role performed by bridge individuals. Utilizing the grounded theory approach (Glaser & Strauss, 1967; Strauss & Corbin, 1998), we conducted the study without any specific theory or propositions in mind.

Research Design and Setting

Because the identities, attitudes, and cognitive and affective characteristics of bridge individuals are also under-explored but high-potential research topics for future studies (Sekiguchi, 2016), we utilized the explorative and inductive approach to distill the construct and address our research questions. We chose the qualitative research design because it is suitable for addressing how and why questions (Pratt, 2009). Since Japan is a relatively homogenous country, Japanese companies have challenged globalization and corporate language strategy for a long time. The English level among Japanese is relatively low, so the Japanese language is still dominant in Japanese companies, even in

overseas subsidiaries. Regarding the interviewed companies, we limited them to the Netherlands and Germany because they are two of the most active countries in Japanese MNCs' international expansion (Japan External Trade Organization, 2017). Therefore, bridge individuals' language skills seem more important for Japanese companies. In addition, we did not limit our sample companies to one industry because we aimed to investigate a variety of industries. Our samples included manufacturing, chemical, financial, and hospitality industries.

Data Collection

We collected data with semi-structured interviews with 60 employees in 13 Japanese subsidiaries in Germany and the Netherlands. All of our interviewees can be considered as bridge individuals because they were playing a role of improving the company and individual performance through bridging roles.

We asked the interviewees about their companies' language policies and the language practices among the frontline employees working in subsidiaries. We also asked the interviewees to describe their experiences utilizing foreign language at work and their roles when communicating with people from different language backgrounds in the workplace. The interviews were conducted in English and Japanese, along with one in Chinese. The first author—who is fluent in Japanese and English and a native speaker of Chinese—conducted all of the interviews. The interviews were primarily conducted in the workplace in a private room. We recorded and transcribed all of the interviews, with the interviewees' agreement. The interviews lasted from 25 to 114 minutes.

To investigate the overall impact of bridging roles, we included subsidiary leaders and managers from the home country and host countries. They provided us with insights into the company or from the department level about the relationship between the headquarters (HQ) and subsidiaries. To include insights from various perspectives, we interviewed not only Japanese employees but also employees from the host countries and other countries (e.g., Belgium and Hungary). We included a variety of perspectives from various nationalities (i.e., parent country nationals [PCNs], host country nationals [HCNs], and third country nationals [TCNs]) and hierarchical levels (e.g., head of subsidiaries, head of the department, and staff members) to diminish potential biases and consolidate the accuracy of theory building (Golden, 1992). Our final data came from seven heads of subsidiaries

(six from the home country and one from the host country), 25 directors/senior managers/managers (nine from home country, 14 from the host country, and two from third countries), and 28 staff members (22 from the home country, four from the host country, and two from other countries).

We generated research questions to target managers and employees. The manager-level questions were about language policy, language-sensitive recruitment, language practices among middle/top management, language practice among employees from a top-down perspective, top-down language support, language and internationalization, language-sensitive support, and future language policy plans. We asked the employees about language policy from their perspective, language practices in the frontline, language's influence on emotion and performance, language anxiety in the frontline, language support from superiors and the company, self-organized language support (proactive), language-sensitive support, and future individual plans, especially in terms of language. Table 1 summarized the basic information of interview companies and interviewees.

Table 1 Sample Description

Firm	Functional area	Corporate language	Number of informants	Mother tongues of informants	Position	Interview language	Duration of recorded interviews	Country base
DUTCH-K	Manufacturing	Japanese	1	1 Japanese	1 director (head of subsidiary)	Japanese	45 min	Netherlands
DUTCH-D	Manufacturing	Nonformalized	2	2 Japanese	1 director, 1HR specialist	Japanese	1hrs 39min	Netherlands
DUTCH-O	Hospitality	Nonformalized	6	2 Dutch, 1 German 3 Japanese	1 vice president (head of subsidiary); 1 general manager; 1 HR director; 3 staff members	Japanese and English	4hrs 56min	Netherlands
DUTCH-R	Manufacturing	Nonformalized	7	2 Dutch, 1 Hungarian, 4 Japanese	1 vice president; 4 managers; 2 staff members	Japanese and English	5hrs 47min	Netherlands
DUTCH- M	Financial	Nonformalized	6	2 Dutch, 4 Japanese	1 HR director; 3 associates; 2 associate directors	Japanese and English	4hrs 52min	Netherlands
DUTCH-H	Transportation	Nonformalized	10	3 Dutch, 7 Japanese	1 CEO (head of subsidiary); 1 corporate director; 4 managers (1 HR manager), 4 staff members	Japanese and English	8hrs 6min	Netherlands
DUTCH- S	Manufacturing	Nonformalized	12	7 Dutch, 1 Belgian 4 Japanese	1 CEO (head of subsidiary), 1 CFO, 3 directors, 4 managers (1 HR manager); 2 staff members	Japanese and English	5hrs 18min	Netherlands
DUTCH-C	Manufacturing	English	4	1 Dutch, 3 Japanese	1 president (head of subsidiary); 1 HR manager; 2 staff members	Japanese and English	1hr 59min	Netherlands
GERMAN-D	Business Platform	Nonformalized	3	2 German; 1 Japanese	3 staff members	Japanese and English	1hr 49min	Germany
GERMAN-J	Traveling	Nonformalized	3	3 Japanese	3 staff members	Japanese	3hrs	Germany
GERMAN-TK	Manufacturing	Nonformalized	4	4 Japanese	1 manager; 3 staff members	Japanese	3hrs 21min	Germany
GERMAN-H	Traveling	Nonformalized	1	1 Japanese	1 manager	Japanese	1hr 38min	Germany
GERMAN-TT	Manufacturing	Japanese	1	1 Japanese	1 CEO (head of subsidiary)	Japanese	45min	Germany

Data Analysis

Data analysis was conducted in an iterative process. We used the Atlas.ti qualitative research software to analyze our interview data. We retained the original languages for all of the interview transcripts. We only transcribed the quotations necessary for the current study into English, and the entire coding process was in English. First, we used the open coding technique to categorize the interview data (Charmaz, 2010; Locke, 2001; Strauss & Corbin, 1998), and we created first-order coding for each concept. We retained the interviewees' language choices and perspectives when we conducted the first-order coding. We paid attention to a set of first-order focus points, such as language policies, language practices, language skills, and cultural skills, in bridge individuals' effects on their company's strategy and individual performance. Then we merged our first-order concepts to reduce their number by comparing the similarities and differences. Based on the first-order coding, we defined second-order focus points. In this stage, we categorized the transcripts into more consolidated subcategories. Finally, we summarized the second-order concepts into our theoretical model. Figure 1 illustrates this coding process and Figure 2 shows the conceptual model.

Examples of first-order concepts

Second-order concepts

Core focus

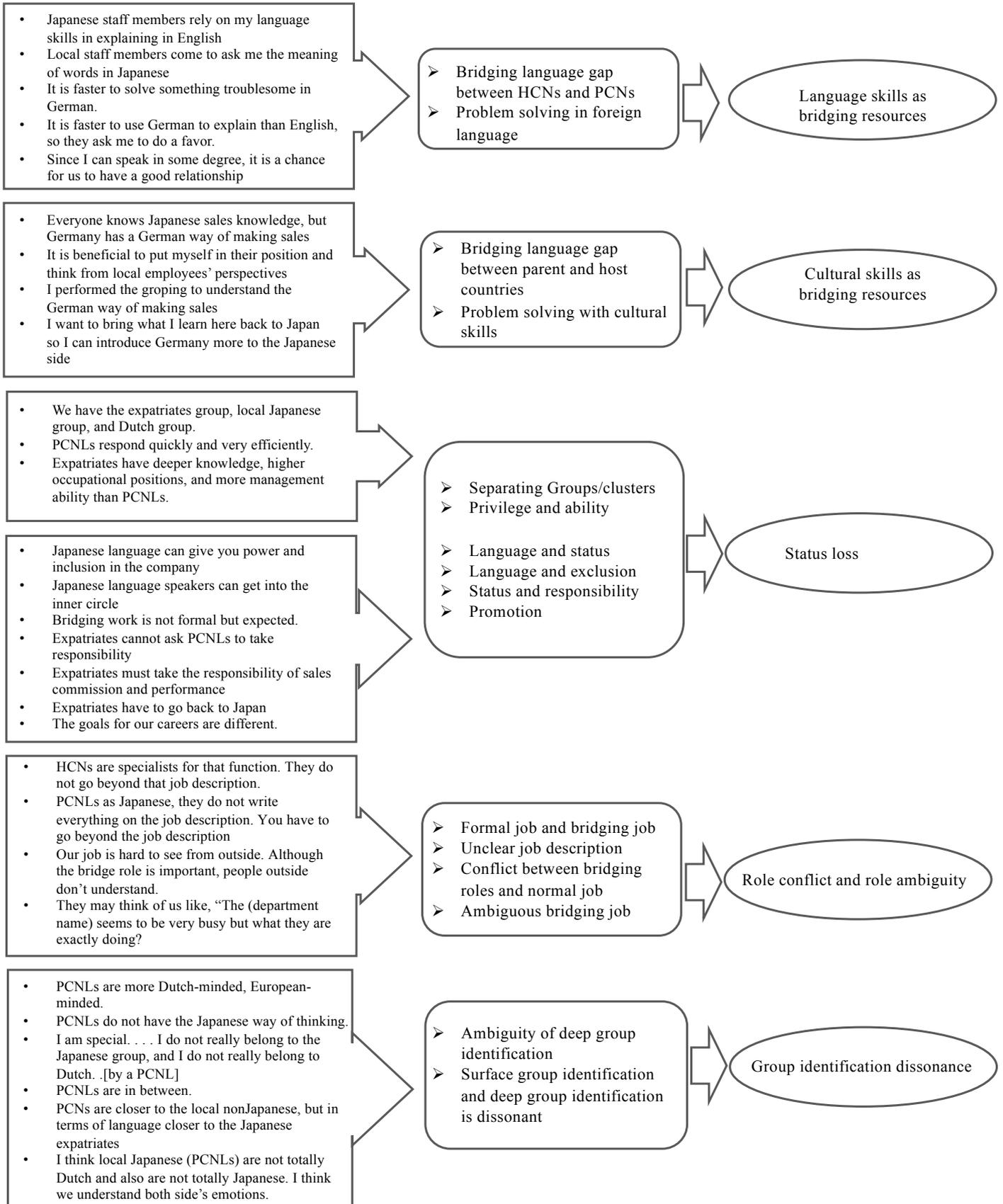


Figure 1 Data Structure

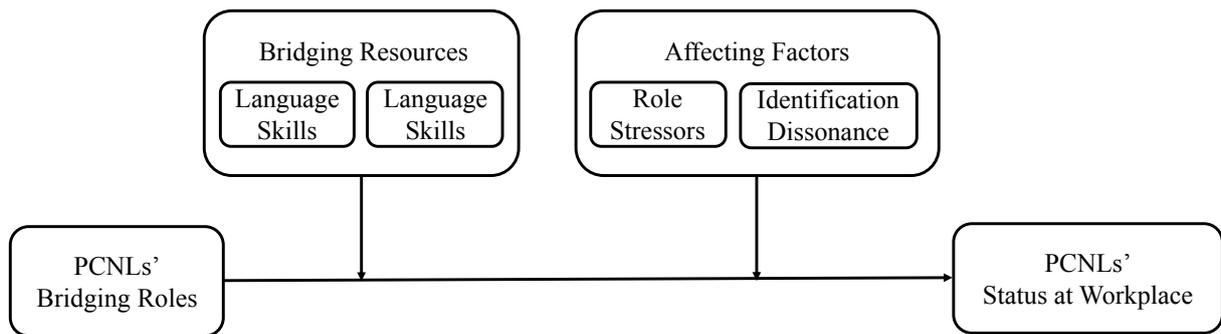


Figure 2 Conceptual Model

FINDINGS

In our analysis, we found a special group of bridge individuals, who are parent-country nationals recruited from host countries, and this group of employees is this study's focus. We address examples with quotations for each situation and finally distill the findings to a general proposition. We aimed to dig into the underlying mechanisms and reaffirm the problem from the PCNs', HCNs' and PCNLs' viewpoints.

The Hidden PCNL Group

We define the special group as PCNLs because PCNs are defined as parent-country nationals and HCNs are defined as host-country nationals (Shaffer, Harrison, & Gilley, 1999). We abbreviate parent country nationals who are recruited from the host country as parent-country nationals locally recruited (PCNLs).

When the interviewees mentioned the existing groups, most of them divided them into PCN expatriates, HCNs, and PCNLs. TCNs were included in the HCN groups in some cases: "Yes, expatriates group, local Japanese (PCNLs) group, and Dutch group. Ideally, I think the company should treat the local Japanese and local Dutch employees the same, but it is quite difficult" (DUTCH-M6, PCNL, senior associate).

It's not good because it really creates a wall between the two groups, and you can feel it in the company once you have three groups: Japanese expats, the Japanese locals, and the rest.
(DUTCH-M2, HCN, associate).

Expatriates often take higher positions overseas than in Japan. They are engaged in work related to the general management of the company. Although PCNLs are contracted in the same way as HCNs, it is common for PCNLs to be given more work because some jobs can only be done by Japanese people at overseas bases. In many cases, PCNLs do the same work as expatriates, but their compensation is much lower than that of expatriates.

They have high ability. Because they stay in Germany for a long time, they can speak German, and some of their husbands are German. They studied in Germany, and after that, they started working here. Their German is excellent although they do not know much about our company. This is the difference from expatriates. Japanese locals (PCNLs), they respond fast, very efficient. (GERMAN-TK2, PCN expatriate, manager)

Many PCNLs decided to live in the host country because they married locals or they graduated from a host country university and developed a deep affection for the host country's culture. A PCNL claimed, "Of course, I think their (PCN expatriates) treatment, salary is good. But I do not really care about it. I came here because I like Germany, so I'm satisfied with my current work. I am satisfied with this standpoint" (GERMAN-TK3, PCNL, member).

The head of GERMAN-TT, a top management expatriate, said, "The difference in the role is that the expatriates have more deep expertise knowledge, high occupational position, and high management ability than local recruited Japanese" (GERMAN-TT1, PCN expatriate, CEO).

Among people who want to work as local recruited Japanese, many of them have a long period of working experience overseas. Because they live outside, their mindset is also like that of local foreigners. They do not have the Japanese way of thinking. (DUTCH-C3, PCN expatriate, account executive)

Although PCN expatriates, HCN members, and PCNLs have different opinions about this hidden group, the conclusion that the PCNL group is ignored is clear. Since many of the interviewees highlight the difference between PCNLs and PCN expatriates, we first simply compare PCNLs' differences with PCN expatriates by summarizing the basic elements in Table 2.

Table 2 Comparison of PCN and PCNL

Comparison	Japanese Expatriates	PCNLs (Local Japanese)
Reason why working abroad	Assignments; Mandatory	Affection for the host country's culture/language; graduated from a host country university; married locals...
Language skills and cultural skills	Low	High → advantages? disadvantages
Salary	High	Low (1/3)
Position	High (general management)	Low (Assistant; job description unclear)
Motivation	Be promoted easily after returning to their home countries	Salary → Work-life balance

Bridging Resources of PCNLs : Language Skills and Cultural Skills

By definition, bridge individuals are supposed to engage in the bridging roles in MNCs. Such roles may include reducing the distance between individuals in a network within MNCs such as those between HQ and foreign subsidiaries and spreading information rapidly throughout a network (e.g., Granovetter, 1973, 1983). For example, bridge individuals are expected to act in bridging roles not only among different teams and team members in a network, but also among different linguistic and cultural groups. Therefore, language skills and cultural skills are valuable resources for bridge individuals (Barner-Rasmussen et al., 2014). Since PCNLs are highly potential bridge individuals, their language skills and cultural skills as resources for bridging roles, can help them to surmount various barriers by embracing these skills to function in information exchanging, linking, facilitating, and intervening.

Because employees with high language skills tend to be language nodes (Marschan-Piekkari et al., 1999), they can access more information from formal or informal interactions; thus, when employees have high foreign language proficiency, they can act more between host clusters and home clusters, within groups or without groups. They can bring more novel information from outside groups, which can enhance the intergroup relationships.

It is faster to solve something troublesome in German. For example, there are things like house repairing; it is faster to use German to explain than English, so they ask me to do a favor. But I don't dislike it because I feel it is my job. The other people don't like this kind of thing because they think it is not their job. I think we [PCNLs] are expected to do this kind of job. It does not help me, but it is maybe a special job. (GERMAN-TK1: PCNL, member)

Another analyst stated, “The advantage that language gives me is I can talk with various people although it is not perfect. Since I can speak in some degree, it is a chance for us to have a good relationship” (DUTCH-H2, PCNL, analyst).

Language is infallible in the bridging process. Mitigating ambiguity due to language translation is the future task of MNCs:

Documents regarding quality and safety will be sent from the Tokyo office directly to me. Of course, I can translate literally, but there is still some background I do not know. . . . So if the person who originally sent the information can translate it into English correctly, there will be no useless costs in between, and it is also what we want to solve in our managing system.

(DUTCH-H6, corporate director)

Not only language skills but also cultural skills play a significant role in PCNLs’ bridging roles, such as bridging the cultural gap in business between parent country and host countries.

Everyone knows Japanese sales knowledge, but Germany has a German way of making sales. Is it rude to go to the company directly, or is it okay to use e-mail? Telephone? What are the telephone manners in Germany? Nobody knows these things. We have to grope gradually.

Although I am Japanese, I actually do this groping job, and finally, I believe “Messe” is the best way. (GERMAN-J1, PCNL, member)

Language skills and cultural skills facilitate PCNLs to understand the emotions of both PCNs and HCNs. The special ability of sharing similar emotions and feelings help PCNLs to function more bridging roles.

I think local Japanese (PCNLs) are not totally Dutch and also are not totally Japanese. I think we understand both side’s emotions. . . . Personally, I think I understand the emotion and feelings from both sides.

In summary, language skills and cultural skills are resources for PCNLs’ bridging roles, and we propose:

Proposition 1: *PCNLs who have high-level language skills and cultural skills can reinforce bridging roles.*

Dark Sides of Bridging Roles: Status Loss in the workplace

Networks are increasingly seen as a structure of clusters of diverse individuals, groups, and organizations working collaboratively. Lin (1999a) defined social capital as access to and use of resources embedded in social networks. Investment in social networks can facilitate the flow of information and provide useful information regarding opportunities. Bridge individuals can be seen as connectivity in a network, carrying information, resources, etc. through the network (Moody & Paxton, 2009). Thus, bridge individuals' social tie resources and their acknowledged relationships can be conceived as certifications of social credentials by the organization or its members. Therefore, bridge individuals have more access to resources through social networks reflecting their social capital (Lin, 1999a), which enhances the chances of attaining better status (Lin, 1999b). Superior language skills can reinforce power structures and increase the influence of general power sources (Tenzer & Pudelko, 2017). However, according to our interview data, PCNLs are facing status loss even though they are serving significant bridging roles.

In our analysis, expatriates are in crucial positions in most cases. We also found many HCNs are also in manager positions, namely the company DUTCH-S. However, among all 14 PCNLs we interviewed, not even one in a manager position worked for the company longer than the expatriates even though tenure is an important index in promotion in a Japanese company. In most of the cases, they performed the same job as expatriates, but expatriates took more responsibility from HQ.

Typically, if employees can speak more Japanese, they can go into the inner circle. DUTCH-H3, a Dutch HR manager, said she took a couple of years to gain trust from the Japanese side. Although now she does not feel exclusive, she still believes language ability can get people into the circle and gain status. But the PCNLs are still considered the third group:

If you speak Japanese, you have a high status in the company, yes. . . . At this moment, if you speak Japanese, then you can get into the inner circle. Language can get some like you power, included in the company” (DUTCH-H3, HCN, HR manager).

Interviews with PCNLs and PCNs revealed that local Japanese play a role as a bridge. Regarding their identity, many recognized it was different. Being able to speak Japanese and local languages is an advantage for local Japanese and a disadvantage because they can only become

bridges and lose their professional status. They have to act as translators and interpreters in their daily work. Several participants stated it was difficult to keep maintain, gain a voice, and get a promotion:

I am in the middle, yes. It is a difficult position, actually. . . . First, I think one reason is the language. Second is how they actually think of the way of working. . . . There is quite a difference between them, and I try to combine them, but as a management assistant, it is still quite difficult for me. (DUTCH-H4, PCNL, assistant)

From the perspective of PCN expatriates, although they give PCNLs decent evaluations, they still think PCNLs do not undertake the same responsibility they do. According to the head of DUTCH-O, PCNLs have less responsibility than PCN expatriates. This fact can also account for their loss of status:

In our consciousness, we cannot ask the local Japanese (PCNLs) to take responsibility. For example, if midnight at 2 o'clock the customers are angry, they ask the manager to come. We expatriates have to come, but the local Japanese won't come. (DUTCH-O4, PCN expatriate, vice president)

One reason that PCNLs are recruited is local language ability. PCNLs are always working as the assistant but not in crucial positions. Language ability is one advantage, but it also decreases their opportunity for promotion to another position. When top managers in subsidiaries talked about the position, they emphasized the importance of improving the local Dutch/German managers without mentioning PCNLs at all. I posit that PCNLs are far from the center of the power structure:

This is a consciousness barrier between us. We (PCN expatriates and PCNLs) respect each other. But expatriates have to go back to Japan, and the goal for our careers is different. . . . In terms of the daily work, if I say this, they may be angry. Expatriates take more responsibility. Although it depends on the position of local Japanese, regardless of whether they are managers or regular employees, when it comes to the sales commission and performance, we expatriates apparently take the responsibility. They (PCNLs) are in a different world from us. (DUTCH-H7, PCN expatriate, Regional Manager)

As for expatriates, after they return to their home countries, they will get a promotion easily.

However, PCNLs do not have this privilege:

If you check all the Japanese coming here, when they return, they get a global position.

(NAME) was the technical engineer. He moved back to Japan and then became managing director. (NAME) was a sales director like me. He was like top three, top four for the organization. (NAME), my predecessor, came from the general job. All Japanese coming here stay four, five, six, years max. It is between four and seven years of your lifetime in Europe.

(DUTCH-S9, TCN, director)

Thus, we summarize:

Proposition2: *Although PCNLs who have high-level language skills and cultural skills can reinforce bridging roles, they are still facing status loss in the workplace.*

In the next section, we discuss the factors affecting PCNLs' bridging role on status loss in the workplace.

Affecting Factors of PCNLs' Bridging Roles

Role ambiguity and role conflict. Because bridge individuals perform their bridging role as part of their normal job (Harzing et al., 2011), when their capacity cannot meet the requirements from both their main job and their bridging job, the bridging role will cause role stress. When PCNLs are serving as bridging individuals, they are facing role ambiguity and role conflict. When an inadequate dyadic relationship happens between the bridging role and the resources they have, role stress occurs and leads to potential negative consequences. Specifically, bridge individuals often experience unclear line of the responsibility, and all this comes from serving as bridges:

Dutch (locally recruited foreigners) people are specialists for that function. They do not go beyond that job description. But as Japanese, they do not write everything on the job description. You have to go beyond the job description. . . . The contract between the Dutch and Japanese locals is the same, but managers can ask me easily in their own language, in Japanese, "Can you do this? Can you do that?" But it is not included in the job description.

(DUTCH-H4, assistant)

Although bridge individuals actively engage in various work, outside the division, others get confused. In turn, they may not gain the status to correspond with their contribution.

I think that the difficulty in our job is hard to see from outside. Although the bridge role is important, people outside don't understand. We do not meet with customers, so the others may not understand why we are busy. If you go to the other departments and there is no reply from them, you will come for us. It is a department that both the Tokyo headquarter and other subsidiary departments come to for consulting. (DUTCH-M6, senior associate)

In summary, role conflict and role ambiguity negatively influence the relationship between PCNLs' bridging roles and status. Thus, we propose:

Proposition 3: *Although PCNLs who have high-level language skills and cultural skills can reinforce bridging roles, their role conflict and role ambiguity lead to status loss.*

Group identification dissonance of PCNLs. Henry, Arrow, and Carini (1999) defined group identification as members' identification with an interacting group. In social identity theory, identification is a perceptual-cognitive concept (Richter, West, Van Dick, & Dawson, 2006). One person's distinctive social categories drive his or her self-evaluative identifications and classifications. In organizations, social groups may include the organization itself, departments, shared professional occupations, committees, statuses, and other types of social groups in organizations. Self-categorization emphasizes the perceived similarities with the group. Organizational identification in combination with intergroup contact can encourage positive intergroup outcomes (Richter et al., 2006). Group identification has been discussed as occurring at the individual level, and group identity refers to the group's collective identity (Henry et al., 1999). Our study elucidates the group identification of the parent country's employees recruited locally from the perspectives of the other types of assignees.

In our research, many interviewees said PCNLs are special but they have various opinions about which groups they belong to:

They (PCNLs) are more Dutch because they live here and can already speak some Dutch, so they're really in the middle. They are very special, so everybody looks different. Well, they're still Japanese, but compared to Japanese expats, they're really more Dutch, so to which group do they belong? (DUTCH-M2, HCN, Associate)

Another associate said, “They (PCNs and PCNLs) also communicate with each other but on a different level, on a formal level, a business level. The locally hired stay together at a more informal level” (DUTCH-M2, HCN, associate).

We can see a gap still exists between PCNs and PCNLs. We explore the identification of bridge individuals to better understand their sense of belonging, identity, and group identification. Clearly, their group identification is dissonant. They were given more bridging work because their surface identity is Japanese. However, some HCNs thought they belonged to the Dutch group:

I think the local Japanese are more Dutch-minded, European-minded. I think that is also the reason they are here. . . . They live here, so they have to adjust to the Dutch side, which is normal. And the experts don't. . . . Their focus is different. The focus here is not making everything better but doing their job so they can get a better job in Japan. (DUTCH-H3, HCN, HR manager)

I think it depends on the individual, but I think I am closer to the local nonJapanese. Of course, in terms of languages, I am closer to the Japanese expatriates because we communicate in Japanese and therefore communicate more. We are in between. Although it is not formal, I think our role is expected. (DUTCH-M6, PCNL, senior associate)

Although the same native language makes PCNLs similar to the PCN expatriates, PCNLs still think they belong to the nonJapanese group. We define this identification as a surface identification with the parent country and deep identification with the host country. The second type of PCNL group identification dissonance occurs when the surface identification is Japanese and the deep identification is ambiguous. Such PCNLs cannot determine their deep identification. DUTCH-H4 mentioned the ambiguity identification as a special in-between.

In my position, I can help the Japanese local sides. I can go in between. That represents why I am special. . . . I do not really belong to the Japanese group, and I do not really belong to the Dutch. If I attend an all-employee meeting, I am the only Japanese member because I have to organize the meeting and everybody is mainly Dutch. (DUTCH-H4, PCNL, assistant)

Figure 3 illustrates the dissonance between PCNLs’ surface identification and deep identification.

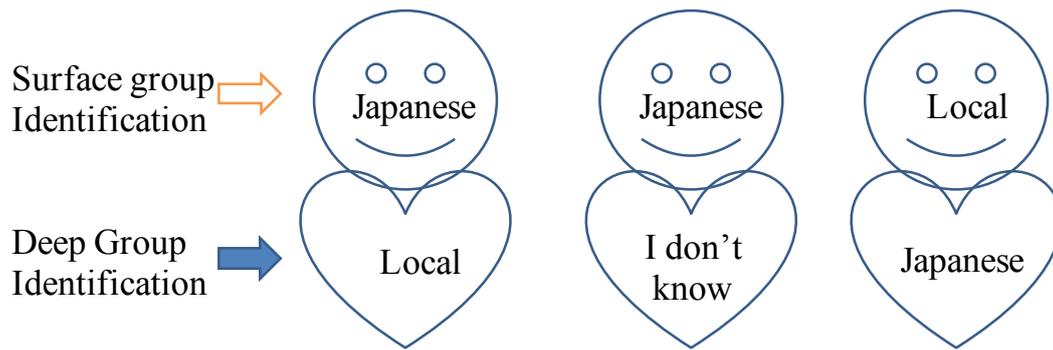


Figure 3 Dissonance between PCNLs' surface identification and deep identification

Regarding the group identification, most of them think they are between PCN and HCN. Due to their special function in language, they are treated differently from PCNs and HCNs.

Since the expatriate is coming as the salesperson, but I am an assistant and accounting, in the first place, our roles are different. The big difference is that local Japanese can speak German, but expatriates do not understand German. They use English in everyday work. (GERMAN-TK3, PCNL, member)

Japanese-language ability puts them at a disadvantage rather than making them assets. Because PCNLs were educated in Japan, they are familiar with the nuance of the Japanese way of dealing in business. This bridging function and language ability placed them in the PCN group regarding surface diversity. The surface and deep belongingness are dissonant for them.

We can speak Japanese and understand the nuance. We had lived in Japan for a long time, and we can guess, "Maybe they are talking about such things." We are expected to understand what the Japanese mean even if they do not say it aloud. However, the local Japanese staff here are not 100% like this. Because local Japanese have lived here for a long time, there are many local Japanese more similar to locals. Just because we can speak Japanese, we are on the Japanese side. (DUTCH-M6, PCNL, Senior associate)

Because PCNLs can obtain PCN information from the Japanese side and disseminate it to local groups, they become local group stars. They can also gain local HCN information and disseminate it to the Japanese group, so they may also become parent group stars. Therefore, PCNLs can gather and disseminate information and, as such, must be well-connected internally and externally. However, according to our interview analysis, PCNL employees are facing a dilemma in between. When there is

a gray zone that the HCNs think is not their responsibility and expatriates have the responsibility to complete, the extra work always goes to the PCNLs:

People in the Netherlands are educated and trained to do this. They know how to fend for themselves. They know how to say “No.” However, I do not think this is possible for people educated in Japan. . . . Regarding the management issues, after the local employees (HCNs and TCNs) say, “I have finished all of my own work, and I do not know the others,” there is always a problem of what to do with the rest of the job. We, local Japanese employees, who cannot defend ourselves properly, will do the rest of work. We do not think those are our formal jobs, but we will do that. Otherwise, the relationships between each group will get worse. (DUTCH-M6, PCNL, senior associate)

PCNLs tend to take on more responsibility than the HCNs although they have the same contract and salary. PCNLs have more responsibility and work more because they were educated in the parent country and knew more of the HQ management’s nuances. They even think they are expected to be different because they are Japanese bridges: “We are those people who understand the nuance and are expected to work differently from the local Dutch employees. We are like the ‘bridge’ between these two clusters” (DUTCH-M6, PCNL, senior associate).

They do not have a clear line of the responsibility, and all this comes from their “advantage” of serving as bridges without a clear identification:

Dutch (locally recruited foreigners) people are specialists for that function. They do not go beyond that job description. But as Japanese, they do not write everything on the job description. You have to go beyond the job description. . . . The contract between the Dutch and Japanese locals is the same, but managers can ask me easily in their own language, in Japanese, “Can you do this? Can you do that?” But it is not included in the job description. (DUTCH-H4, PCNL, assistant)

As PCNLs, they are likely to fill a special role in the workplace. DUTCH-H2 identifies more with the Dutch group, and she tends to help the PCNs adapt to the local way of dealing with customers:

About the special function of local Japanese, when dealing with customers, I sometimes feel I have the same opinions as the Dutch. When Japanese staff and Dutch staff discuss some issues, the Japanese think in one way, and they say, "It cannot be like this in Japan." When the Dutch and Japanese people do not convince each other, they won't come to a conclusion, and the job cannot proceed smoothly. (DUTCH-H2, PCNL, analyst)

PCNLs serve as bridges on both sides because they have a high level of language proficiency in the parent country's language, host country's language, and English as their lingua franca. However, their identification dissonance prevents equilibrium. Both the home country employees and host country employees view bridge individuals as outsiders.

Thus, we propose:

Proposition 4: *Although PCNLs who have high-level language skills and cultural skills can reinforce bridging roles, their identification dissonance leads to status loss.*

DISCUSSION

Because what bridge individuals actually do in MNCs and what bring to them as a result of performing the bridging roles have not been well understood, we took qualitative research method in this study. We explored a new construct of PCNLs and the consequences serving as bridge individuals. We then elaborated and theoretically strengthened the emergent findings with the quotations from the qualitative study, from the perspective of bridging resources and affecting factors on PCNLs' status. As a result, we were able to establish a novel perspective of bridging individuals in MNCs-PCNLs.

Theoretical Contributions

The current study opens up the debate on a hidden group of bridge individuals and their bridging roles in the international business context. We first define a unique group in MNCs' subsidiaries, PCNLs. They are the bridge individuals with the most potential because they can handle the language of the parent and host countries, as well as the lingua franca, English. However, due to their special position, role conflict, role ambiguity, and identification dissonance, their advantage

inevitably leads to status loss. The previous study argued language could be a liability for individuals who use foreign languages (Volk, Köhler, & Pudelko, 2014), especially for people who have relatively low language skills (Neeley, 2013; Yamao & Sekiguchi, 2015). Lack of language skills can lead to status loss, and high language skills can bring unearned status (Neeley & Dumas, 2016). Our study shed light on the negative effect of language skills and bridging functions on status. We portray this negative influence on a special hidden group called PCNLs and highlight the underlined impact of their ambiguous group identification, role conflict and role ambiguity. Our findings extend the horizon of international assignees and would have significant theoretical implications especially for future research, which will be discussed later as future research directions.

Second, based on the findings about what are brought to PCNLs when they perform bridging roles, we could generate and elaborate on the theoretical framework regarding the effects of status loss. Especially, our new theoretical perspective suggests that for PCNLs, performing bridging roles does not always produce desirable outcomes for them. Indeed, performing bridging roles results in enriching social capital of the bridge individuals, however, role stress and identification dissonance tends to result in status loss. Our findings shed light on the complex nature of bridging roles in MNCs.

Practical Implications

Our findings also have practical implications both from the employee and MNC perspectives. First, from the employee perspective, our findings suggest that although language skills and cultural skills can be bridging resources, PCNLs who are willing to serve as bridge individuals should also acknowledge the potential dark side of the bridging roles, such as the high risk of status loss. In addition, our conceptualizations of PCNLs' bridging roles indicate that what kinds of skills and abilities would be the valuable resources to be the effective bridge individuals.

Second, from the MNC perspective, we contribute to the understanding of how to motivate PCN expatriates and PCNLs in various ways. Multinational companies need to recognize the PCNL group's distinctiveness first. They should recognize that the method of improving the PCNLs' motivation and satisfaction is different from the case of the expatriates. Expatriates are often dispatched by company orders, but PCNLs choose to continue the job because of their addiction to the local culture, and most of them can speak the host country's languages. After returning to Japan, the expatriates may work at

the HQ, making full use of their overseas experience, and could get promoted easily. Extrinsic motivation becomes the main reason. However, because PCNLs adapt to the local culture and satisfy their job's duties due to the intrinsic addiction to the culture or life abroad, companies should provide them with work-life balance rather than simply raising their salaries. In other words, MNCs should emphasize PCNLs' integral role as bridges, a linking node of language and culture.

Limitations and Future Research Directions

The findings of our study should be viewed in light of the limitations that provide us with opportunities for future research. First, our samples only consist of individuals working for Japanese foreign subsidiaries. Therefore, our findings may reflect some characteristics of Japanese MNCs. Collecting data from a broader sample, such as MNCs from other countries, is an important next step. Second, because we interviewed the participants during their working hours, the interview time was very limited in some companies. At the next step, we aim to gain more information through more in-depth interviews. Finally, we found that PCNLs' group identification is dissonant, but we did not deepen the reason and process. Understanding the changing process of their group identification and personal identity is essential for future study. For future study, we also recommend using the quantitative measures to test the uncovered bridging functions and the underlying identification of the hidden PCNL group.

In short, there are ample opportunities for future research on the topic of PCNLs and their bridging roles in MNCs. Future research could replicate and extend our theory and findings or explore other aspects and variables to create new knowledge on this topic.

CONCLUSION

The present study contributes to the international business literature for several ways. First, our study explores a new concept of PCNLs and their bridging resources in the context of MNCs and provides novel conceptualizations of the bridging roles. Second, we empirically demonstrate a new theoretical framework concerning the negative consequences of performing bridging roles by PCNLs. Third, we incorporate concepts of role stress and identification dissonance into our theoretical framework and demonstrate their negative and positive influence on the effects of the bridging roles

have on PCNLs' status. In short, our study adds significant value to the deeper understanding of the bridging role and bridge individuals in MNCs from the PCNL's perspective.

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**Corporate philosophy as a linking mechanism: Antecedents and behavioral outcomes of
internalization of corporate philosophy at Japanese MNCs in Thailand**

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**Corporate philosophy as a linking mechanism: Antecedents and behavioral outcomes of
internalization of corporate philosophy at Japanese MNCs in Thailand**

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**Corporate philosophy as a linking mechanism: Antecedents and behavioral outcomes of
internalization of corporate philosophy at Japanese MNCs in Thailand**

ABSTRACT

At multinational corporations' (MNCs) foreign subsidiaries, internalizing corporate philosophy is considered critical in promoting the behaviors of local employees to achieve corporate goals.

However, we know little about what factors in MNCs' foreign subsidiaries facilitate the internalization of corporate philosophy among foreign subsidiary employees and what the behavioral consequences of the internalization are. To address the research gap, we conducted a study using a sample of 374 supervisor-employee dyads which is nested in 66 work teams in Japanese MNCs in Thailand. Our analysis showed that Japanese management practices were positively related to and the HQ control was negatively related to the internalization of corporate philosophy among the teams of local employees at the subsidiaries, which in turn was related to the team members' in-role performance and knowledge sharing behaviors. In addition, team boundary work moderated the relationships between Japanese management practices, the HQ control, and the internalization of corporate philosophy. The findings of our study advance the understanding of the role of corporate philosophy in managing MNCs' foreign subsidiary employees.

Keywords: Japanese MNCs, internalization of corporate philosophy, Japanese management practices, headquarters' control, knowledge sharing behavior, in-role performance

INTRODUCTION

With the progress of globalization, managing foreign subsidiaries is critical to the success of multinational companies (MNCs). However, to successfully coordinate and control their foreign subsidiaries, MNCs have to overcome the geographical, cultural, and institutional distance between the headquarters (HQ) and the subsidiaries. The distance makes it challenging for HQ to implement HQ's global strategy and corporate goals in host countries. In this respect, the normative control as well as the bureaucratic control may encourage a smooth working relationship between the parties (Cummings and Teng, 2003), the integration of different operations within an MNC, and may result in improved performance (Bartlett and Ghoshal, 1989). Whereas the bureaucratic control of MNCs mainly relies on explicit formal rules to manage foreign subsidiaries, the normative control of MNCs ensures that key employees worldwide make decisions and behave in accordance with the values, beliefs, and norms of the global corporation, thus reflecting its corporate philosophy (Pucik et al., 2017).

Corporate philosophy can be one of the normative means of coordination and control of foreign operations in MNCs. Corporate philosophy represents management philosophies or principles that guide an organization's internal conduct. "Management philosophy refers to the central, distinctive, and enduring concepts, beliefs, principles, and attitudes guiding business management, which are critical in the pursuit of a mission" (Wang, 2011, p.111). Indeed, many studies on management system transfer, including human resource management (HRM) practices, are premised on the belief that a shared corporate philosophy is an important factor in promoting the transfer of HQ's management style to foreign subsidiaries (Beecher and Yang, 1994). Besides, if the internalization of corporate philosophy in foreign subsidiaries is promoted successfully, MNCs can manage employees of their foreign subsidiaries effectively.

Despite the importance of internalizing corporate philosophy, surprisingly little research has been conducted on the impact of MNC's management styles, which are influenced by the country of origin with respect to the degree of internalization of the corporate philosophy and ultimately its impact on employee behaviors in foreign operations. Therefore, to address this research gap, this study

investigates the factors that promote understanding and internalization of corporate philosophy among foreign subsidiary employees of Japanese MNCs. We posit that Japanese management practices such as on-the-job training, quality control (QC) circle activities, and job rotation in foreign subsidiaries, and how HQ controls over the foreign subsidiaries influence the understanding and internalization of corporate philosophy among local employees in the subsidiaries, which in turn influences their in-role performance and knowledge sharing behaviors.

In this study, we focus on Japanese MNCs, in particular Japanese subsidiaries in Thailand, and the characteristics of their management style for the following reasons. First, corporate philosophy has become an essential ethical foundation for managing employees in Japanese MNCs (Pucik and Hatvany, 1983; Wang, 2011). Second, it has been observed that Japanese MNCs emphasize the use of management systems in their foreign subsidiaries that are developed at Japanese HQs (Harzing, 1999; Kopp, 1994). We predict that this Japanese management style has an impact on the internalization of corporate philosophy among foreign subsidiaries. Third, Japanese MNCs have long business careers in Thailand owing to their being considered strategically important as manufacturing bases. In particular, Thailand was chosen as an important manufacturing base second only to China among automotive companies because it had no national car program. This sector was then viewed as fairly liberalized compared to Malaysia and Indonesia (Coe et al., 2004). Fourth, as Asian countries are geographically and culturally close to Japan compared with other regions such as Europe, we predict that Japanese MNCs may be more likely to be successful in having their corporate philosophy internalized in their Thailand subsidiaries compared with foreign operations in other regions (Dellestrand and Kappen, 2012; Harzing, and Noorderhaven, 2006).

To test our theoretical model and hypotheses, we conduct an empirical study using 374 supervisor-subordinate dyads which is nested in 66 teams in Japanese foreign subsidiaries in Thailand. We focus on work teams in Japanese MNCs' foreign subsidiaries because Japanese companies emphasize the team-oriented working style that is characterized as consensus-building, employee involvement, and job assignment flexibility (Abo et al., 1991; Ichniowski and Shaw, 1999; Ouchi, 1981). In this regards, we posit to what extent to which Japanese management practices are

implemented in foreign subsidiaries and how much control over the subsidiaries differ across work teams. Therefore, we assume that corporate philosophy is shared and internalized within work teams in Japanese MNCs. By developing the theoretical framework and empirical findings, our study contributes to the international business research regarding the role of internalization of corporate philosophy in understanding of the management of MNC's foreign subsidiary employees. In particular, our study theorizes and empirically tests the factors which promote internalization of corporate philosophy at foreign subsidiaries of MNCs, which promotes positive employee behaviors. Moreover, our study provides a useful clue as to how MNCs' managers can manage their foreign subsidiaries' employees effectively.

THEORY AND HYPOTHESES

Corporate philosophy internalization and employee behaviors

Corporate philosophy is viewed as guiding employee behaviors toward organizational goals (O'Reilly and Pfeffer, 2000), which promotes shared goals, values, and beliefs (Nohria and Ghoshal, 1994) for building interpersonal homophily, trust, and close interpersonal networks in an MNC. Corporate philosophy in MNCs can be transferred and shared among employees through interpersonal interactions, such as those occurring between HQ and a subsidiary and joint-work in team task forces and committees (Ghoshal and Bartlett, 1988). The more various distinct units are socialized into MNC's goals and vision, the more they are to achieve open and dense communication and enhance resource and knowledge exchange within MNCs (Björkman et al. 2004; Ghoshal and Bartlett, 1988; Gupta and Govindarajan, 2000; Szulanski, 1996, 2000). Previous studies showed a positive relationship between internalizing corporate philosophy and employees' organizational citizenship behaviors (OCB) (Organ, 1988) in their workplace (e.g., Hatvany and Pucik, 1981; Scott, 1966; Wang, 2009, 2011). Corporate philosophy is considered to be closely related to organizational identity, or the shared understanding of the central, distinctive, and enduring attributes of the organization among their members (Albert and Whetten, 1985; Wang, 2011), which is viewed as a basis for employee identification with the organization (Dutton et al., 1994). Social identity theory (Tajefel and Turner, 1986) and self-categorization theory (Turner et al., 1987) suggests that corporate philosophy might

function as an important social category for understanding personal attributes and the identity-construction process (Wang, 2011). Therefore, the more employees expand their understanding of the corporate philosophy, the more they try to act on it because they feel psychologically attached to the organization. The employees are also motivated to help their colleagues to achieve corporate goals if they understand and internalize the corporate philosophy. In our research context, we posit that corporate philosophy will be shared and internalized among team members through teamwork at the subsidiaries of Japanese MNCs.

We focus on in-role performance and the knowledge sharing behaviors of the foreign subsidiaries' employees as behavioral outcomes examined in this study. In-role performance refers to actions specified and required by an employee's job description and thus mandated, appraised, and rewarded by the organization (Janssen and Van Yperen, 2004). In-role performance has been the most fundamental and important factor for achieving organizational goals and has been the most frequently examined performance outcome in the field of management (Halbesleben and Wheeler, 2007; Harris et al., 2011; Lee et al., 2004; Sekiguchi et al., 2008). Knowledge sharing behaviors are considered as "a set of individual behaviors involving sharing one's work-related knowledge and expertise with other members within one's organization" (Appel-Meulenbroek, Weggenman, and Torkkeli, 2018; Bock et al., 2005; Yi, 2009). Knowledge sharing behavior among foreign subsidiary employee is especially critical in the context of international business because transferring and sharing knowledge between HQ and foreign subsidiaries and disseminating knowledge within the foreign subsidiaries are essential for the successful operation of MNCs (Ghoshal and Bartlett, 1988; Gupta and Govindarajan, 2000; Szulanski, 1996, 2000). Indeed, many Japanese companies emphasize corporate philosophy (Wang, 2011) and sharing knowledge with team members in terms of *kaizen* and QC circle activities (Ichinowski and Shaw, 1999).

Generally speaking, if teams can internalize corporate philosophy, the team members are encouraged to help their colleagues to achieve team and corporate goals (Wang, 2011). Therefore, internalization of corporate philosophy at team level promotes the team members' willingness to act to achieve MNC corporate goals. That is, subsidiary team members who internalize corporate philosophy

are motivated to perform what is expected to them (i.e., in-role performance) and share knowledge that is important to improve the operation of the teams (i.e., knowledge sharing behaviors). Therefore, we offer the following hypothesis.

Hypothesis 1: *Internalizing corporate philosophy within work teams of Japanese MNCs' foreign subsidiary is positively related to the subsidiary employees' in-role performance and knowledge sharing behaviors.*

Japanese management practices/management control and corporate philosophy internalization

We posit that corporate philosophy of MNCs is largely influenced by the management practices of their home country. Therefore, in our research context, we predict that Japanese management practices, when implemented, have a strong influence on the internalization of corporate philosophy at Japanese MNCs' foreign subsidiaries.

Previous studies have pointed out that Japanese MNCs have unique management practices and systems that reflect Japanese culture, and these are transferred to their foreign subsidiaries by using expatriates from HQs to control and coordinate foreign subsidiaries (Abo et al., 1991; Keeley, 2001; Kinbara, 1988; Triandis, 1989; Yasumuro, 1986; Yoshihara, 1996;). The unique features of Japanese management practices include a team-work-oriented working style that has consensus-building, employee involvement, and job assignment flexibility, which are central to the *kaisen*, or to continuous improvement. These management practices have been considered as a source of their competitive advantages especially in the period between 1960s and the 1980s (Ichniowski and Shaw, 1999; Nonaka and Takeuchi, 1995; Ouchi, 1981).

Japanese style of teamwork which is based on the assignment of task to a team, has enabled Japanese companies to foster multi-skilled workers, to have a high level of firm-specific knowledge and know-how (Abo et al., 1991), to improve feeling of group cohesiveness, and to promote information sharing among team members (Okubayashi, 2000). This Japanese management practices may follow suit with each Japanese company's corporate philosophy because the corporate philosophy is basis of the control mechanism in Japan. Some researchers have pointed out that utilizing Japanese management practices in foreign subsidiaries is almost identical to implementing corporate philosophy

in focal subsidiaries (Ouchi, 1981; Yoshida, 1989). Therefore, we predict that the more work teams in foreign subsidiaries implement Japanese management practices, the more team members understand, share, and internalize MNCs' corporate philosophy. Based on the argument above, we predict the following.

Hypothesis 2: *The degree to which Japanese management practices are implemented in work teams is positively related to the internalization of corporate philosophy within the teams in Japanese MNCs' foreign subsidiaries.*

The way MNCs HQ control the work teams of foreign subsidiaries might also influence the degree of corporate philosophy internalization at the subsidiaries. Generally, international management controls can be categorized into two types: bureaucratic control and normative control (Baliga and Jaegar, 1984; Beechler, 2005). The bureaucratic control relies on explicit formal rules, such as reporting systems and procedural or policy manuals, and regulations which delineate desired performance in terms of output and/or behavior (Child, 1973). In our research context, we use the word "HQ control" the degree to which HQ emphasizes bureaucratic control over the work teams of their subsidiaries. The bureaucratic control was considered to reflect centralization; that the authority of lower-level managers in the organizations as well as of subsidiary management's role to make significant decisions was very limited. Thus, HQs that emphasize using the bureaucratic control over the work teams of their overseas subsidiaries overlook transference of power to their subsidiaries (Baliga and Jaeger, 1984). We predict that under strong HQ control situations, the work teams of foreign subsidiaries may be managed based on the instruction from HQs. In this case, corporate philosophy is less apt to be internalized by employees in MNCs' foreign subsidiaries.

On the other hand, when HQ control is weak at the work teams of foreign subsidiaries, the autonomy of these teams will be large. In this case, the normative (cultural) control, would become critical to regulate the teams' operation. The normative control relies on more informal and implicit control, and it is assumed that firms control employees by fully socializing them to internalize organizational values and norms to develop commitment to the organizations. This control model is employed in many large Japanese organizations as well as some Western organizations (Baliga and

Jaegar, 1984; Ouchi, 1979). Cultural control systems are considered to reflect delegation or decentralization (Baliga and Jaegar, 1984). These characteristics of normative control suggest that internalization of corporate philosophy at foreign subsidiaries is essential to make this type of control effective. Corporate philosophy is a means for cultural control by the HQs. In other words, under weak HQ control situations, MNCs may emphasize normative control, which suggests that the work teams of foreign subsidiaries are expected to manage themselves autonomously based on corporate philosophy as management guidance. Thus, corporate philosophy is more likely to be understood, shared, and internalized among the teams of foreign subsidiaries. Therefore, we predict the following.

Hypothesis 3: *The degree of HQ control to work teams is negatively related to the internalization of corporate philosophy within the teams in Japanese MNCs' foreign subsidiaries. '*

Based on the discussion so far, we also predict the indirect effect of Japanese management practices and HQ control in the work teams of Japanese MNCs' foreign subsidiaries on foreign subsidiary employees' in-role performance and knowledge sharing behaviors through the internalization of corporate philosophy. That is, the internalization of corporate philosophy plays an important mediating role between management styles and employees' in-role performance and knowledge sharing behaviors in Japanese MNCs' foreign subsidiaries.

Hypothesis 4: *Internalization of corporate philosophy within work teams mediates the relationship between Japanese management practices / HQ control at the team-level and in-role performance and knowledge sharing behaviors among foreign subsidiaries' employees of Japanese MNCs.*

Team boundary work as a moderator

We posit that team boundary work serves a critical boundary condition that affects the influences of Japanese management practices and HQ control on the internalization of corporate philosophy among foreign subsidiary employees. "Team boundary work is defined as the activities that a team engages in to establish and maintain boundaries and manage interactions across those boundaries" (Faraj and Yan, 2009, p.604). It has been shown to be crucial for acquiring information,

resources, knowledge, and innovation inside organizations (Ancona and Caldwell, 1988; Argote et al., 2003). Team boundary work has three dimensions; boundary spanning, buffering, and reinforcement. Boundary spanning refers to actions a focal team establishes and manages external linkages to critical resources including information and knowledge by using internal social network ties (Faraj and Yan, 2009, p.606). Connectors (Whelan and Teigland, 2013), ambassadors, task coordinators, and scouts (Ancona and Caldwell, 1988) obtain information from outside the organization and translate the information for other members of that organization (e.g., Whelan et al., 2011; Whelan et al., 2013). Boundary buffering is referred to as “an entity that buffers to protect itself against uncertainties and disturbances from without, thereby enhancing the possibility of rational action within” (Faraj and Yan, 2009, p.606). Boundary reinforcement refers to activities “in which a team internally sets and reclaims its boundaries by increasing member awareness of boundaries and sharpening team identity” (Faraj and Yan, 2009, p.607).

Team boundary work is important for teams which often implement Japanese management practices in ordinary operations because the teams acquire key information and knowledge through learning with other teams. As a result, the teams have opportunities to consider the meaning of the information and knowledge acquired from external parties in the light of corporate philosophy. Team boundary work may moderate the relationship between Japanese management and internalization of corporate philosophy. Thus, we expect that when the team boundary work is high rather than when it is low, the relationship between Japanese management and the internalization of corporate philosophy will be stronger. Stated formally:

Hypothesis 5: *Team boundary work will moderate the positive effect of Japanese management and internalization of corporate philosophy within work teams such that the effect is stronger for teams with high rather than low team boundary work.*

In contrast, we predicted that team boundary work moderate the negative effect of HQ control and internalization of corporate philosophy. Because, teams of foreign subsidiaries under weak HQ control situations need to consider its management and performance. The teams actively interacts across parties to acquire information from key external parties and have opportunities to scrutinize and

deliberate the information in line with corporate philosophy, which in turn leads to internalizes corporate philosophy in the teams of foreign subsidiaries. Therefore, we hypothesize a negative moderating effect on the relationship between HQ control and the internalization of corporate philosophy. Stated formally:

Hypothesis 6: *Team boundary work will moderate the negative effect of HQ control and internalization of corporate philosophy within work teams such that the effect is stronger for teams with high rather than low team boundary work.*

The overall model of our study is depicted in Figure 1. As shown, Japanese management practices, HQ control, and internalization of corporate philosophy are considered as team-level variables and foreign subsidiary employees' in-role performance and knowledge sharing behaviors are considered as individual-level variables. Thus, our model reflects multi-level processes involving corporate philosophy as linking mechanism between the management effort of MNC's foreign subsidiaries and foreign subsidiary employees' individual behaviors.

Insert Figure 1 about here

METHOD

Participants in this study were from seven subsidiaries of Japanese manufacturing MNCs operating in Thailand. Five of these companies belong to the automotive industry. Others belong to the manufacture of plastic products and the manufacture of pulp, paper and paper products. These companies allowed the authors to survey employees and their supervisors. Upon the request by the authors, employee surveys and supervisor surveys were electronically distributed by the subsidiaries' HR departments, and employees and supervisors who agreed to participate in this study completed the survey during the period of August through September 2017. Survey response anonymity was guaranteed. In total, 416 employee responses (91.0% response rate) and 456 supervisor responses (99.8% response rate) were received. Samples from employees and supervisors were matched, resulting in 374 employee-supervisor dyads in which both employees and their supervisors responded

to the survey. These work groups belonged to 66 teams across the seven companies. They belonged to the variety of departments including production (44.9%), sales and marketing (14.5%), QC (9.2%), engineering (7.0%), administration (6.0%), accounting (3.3%), purchase (2.9%), warehouse (2.4%), human resources (2.7%) and others (1.8%).

Measures

Most of the items used in our study were originally developed in English and the items on corporate philosophy internalization and Japanese management practices were originally developed in Japanese. They were translated into Thai for our study and some wording was adjusted to the research context. We then followed the translation-back-translation procedure (Brislin, Lonnger, and Thomdike, 1973) to ensure that the original meanings of the items were retained after translation to Thai.

All items were indicated on a 5-point scale (e.g., 1 = strongly disagree; 5 =strongly agree).

Internalization of corporate philosophy

Internalization of corporate philosophy was measured with 11 items adopted from Takao and Wang (2012) We asked team members how well you understand the corporate philosophy. Sample items were: “I am identified with the management philosophy and ethical codes of this organization” and “I can explain the management philosophy to people outside the organization if required.” We adopted the direct consensus composition approach (Chan, 1999, 2019) which involved averaging across individual group members’ own internalization of corporate philosophy and assigning each group member the average value of their group for the internalization of corporate philosophy.

Although the referent measured was “I”(i.e., how I understood and conducted), the referent of interest was the team (i.e., how the team understood and conducted). Colquitt et al. (2002) and Liao and Rupp (2005) used similar methods to operationalize their team construct).Cronbach’s alpha for the eleven-item scale was .92. Given our assumption that corporate philosophy will be shared and internalized among team members through team work, we aggregated these items to make a team-level variable. The intraclass correlation coefficient (ICC) (1) was 0.27 and ICC (2) was 0.64.

Japanese management

Japanese management was measured with five items which were considered as typical

Japanese management practices in the previous studies (Abo et al., 1991; Ichniowski and Shaw, 1999). Supervisors were asked to indicate to what extent their team adopts the practices. Sample items were: “QC circle activities”, “job rotation”, “on- the- job training oriented tasks”, “collective decision-making”, and “management by objective (MBO) based tasks”. Cronbach’s alpha of the five-item scale was .80. Because we assumed that management practices were implemented differently across work teams, we aggregated these items to make a team-level variable. The intraclass correlation coefficient (ICC) (1) was 0.61 and ICC (2) was 0.89.

HQ control

HQ control was measured with eight items adapted from Johnston and Menguc (2007) and Hedlund (1981). We asked supervisors how much influence HQ would have on decisions given below. Sample items were: “Extension of credit to a major customer”, “training programs in your country”, and “quality control norms”. All items were indicated on a 5-point scale (e.g., 1 = the subsidiary decision; 5 =HQ decision). Cronbach’s alpha of the eight-item scale was .85. Because the degree of HQ control was assumed to be different across work teams, we aggregated these items to make a team-level variable. The intraclass correlation coefficient (ICC) (1) was 0.44 and (ICC) (2) was 0.77.

Team boundary work

Team boundary work was measured with 12 items adapted from Faraj and Yan (2009). Supervisors were asked to indicate to what extent their teams implement activities below. Sample items were: “To what extent has this team tried to create a clear sense of its identity and purpose?”, “to what extent are outside pressures deflected or absorbed so that the team can work free of interference?”, and “to what extent does the team encourage its members to solicit information and resources from elsewhere?”. Cronbach’s alpha of the twelve-item scale was .92. Because team boundary work is a team-level construct, we aggregated these items to make a team-level variable. The intraclass correlation coefficient (ICC) (1) was 0.27 and ICC (2) was 0.65.

In-role performance.

The supervisor of an employee rated the degree of their in-role behavior with five items adapted from Williams and Anderson (1991). Sample items were: “This subordinate fulfills all

responsibilities required by his/her job” and “this subordinate fulfills responsibilities specified in the job description.” Cronbach’s alpha of the five-item scale was .94.

Knowledge sharing behavior

The supervisor of an employee rated the degree of their knowledge sharing behavior with the three-item adapted from Carragher, Sullivan, and Crocitto (2008). Participants were asked to indicate their agreement with statements such as, “I share my accumulated knowledge with members of my organization,” and “I share my organizational experiences and know-how with members of my organization”. Cronbach’s alpha of the five-item scale was .90.

Control variables

We used the following factors as control variables that were considered to possibly affect the key variables in our study: employee’s age, gender, and tenure at the time of the survey.

RESULTS

The descriptive statistics and correlations among the variables used in this study are shown in Table 1. Before testing the hypotheses, we conducted confirmatory factor analysis (CFA) to examine the discriminant validity of the overall measurement model; these results are shown in Table 2. The proposed six-factors model, internalization of corporate philosophy, Japanese management, HQ control, team boundary work, in-role performance, and knowledge sharing, Model 1 in Table 2, showed a good fit to the data ($\chi^2 [454] = 1151.89, p < .001$; CFI = .81; TLI = .80; SRMR = .08; RMSEA = .09), and all factor loadings were significant and larger than .50. To assess whether common method variance was present in the data structure, we compared the results of CFA on the baseline model reported above with those of the one-factor model in which all variables are attributed to common method variance (Podsakoff et al., 2003). The CFA results for the one-factor model (Model 2 in Table 2) showed a poor fit to the data ($\chi^2 [464] = 2867.93, p < .001$; CFI = .36; TLI = .31; SRMR = .17; RMSEA = .16) and the fit to data for Model 1 was significantly better than Model 2 ($\Delta\chi^2 [10] = 1151.89, p < .001$). This result indicated that common method bias was less likely in our data.

Table 1 goes about here

Table 2 goes about here

As an initial step to test Hypotheses 1 to 4, we conducted structural equation modeling (SEM). The results of SEM are reported in Table 2. First, the results of SEM for our original model, Model 3 in Table 2, showed a good fit ($\chi^2 [545] = 1251.31, p < .001$; CFI = .81; TLI = .80; SRMR = .08; RMSEA = .08). Next, we tested alternative models in which paths led from Japanese management practices and HQ control to in-role performance and knowledge sharing behavior, which is seen in Model 4 in Table 2. The results of SEM showed a slightly improved model fit ($\chi^2 [541] = 1241.26, p < .001$; CFI = .81; TLI = .80; SRMR = .08; RMSEA = .08), and the fit to data was significantly better than Model 3 ($\Delta\chi^2 [4] = 10.055, p < .05$). Based on the above results, we concluded that Model 4 showed the best fit to the data; thus, it was our final model. The final model showed that direct paths from internalization of corporate philosophy to in-role performance and knowledge sharing behavior were both significant ($\beta = .22, p < .01, \beta = .29, p < .001$, respectively), supporting Hypothesis 1. Next, the direct paths from Japanese management practices and HQ control to internalization of corporate philosophy were both significant ($\beta = .20, p < .01; \beta = -.21, p < .01$, respectively), which support Hypothesis 2 and Hypothesis 3. In addition, because the paths from Japanese management practices and HQ control to internalization of corporate philosophy, and the paths from internalization of corporate philosophy to in-role performance and knowledge sharing behavior were simultaneously significant, even after introducing direct paths from Japanese management practices and HQ control to in-role performance and knowledge sharing behavior, the results support the mediating role of internalization of corporate philosophy. Therefore, Hypothesis 4 was also supported.

Table 3 goes about here

Because employees in our sample were nested in 66 work teams, we performed multilevel analysis to further confirm the results for Hypotheses 1 to 4. First, we calculated two interrater reliability indices (ICC) (1) and (ICC) (2) for independent and mediator variables. The ICC1 estimates were .61 for Japanese management practices, .44 for HQ control, and .27 for internalization of corporate philosophy. The ICC2 estimates were .89 for Japanese management practices, .77 for HQ control, and .64 for internalization of corporate philosophy. Because these statistics generally justified the aggregation of the variables, we aggregated Japanese management practices, HQ control, and internalization of corporate philosophy to the team-level. We then regressed internalization of corporate philosophy onto Japanese management practices and HQ control at the team-level. The ordinary least squares (OLS) regression analysis revealed that Japanese management practices and HQ control at the team levels were both significantly related to internalization of corporate philosophy at the team level ($\gamma=.26, p<.01, \gamma=-.22, p<.05$ respectively). Next, using a multilevel analysis, we regressed individual-level in-role performance and knowledge sharing behaviors onto Japanese management practices, HQ control, and internalization of corporate philosophy as team-level variables. Team-level variables were ground-mean centered before entering into the regression. Results showed that internalization of corporate philosophy was significantly related to in-role performance ($\gamma= .64, p < .001$) and knowledge sharing behaviors ($\gamma= .69, p < .001$), after controlling for Japanese management practices and HQ control, employee age, gender, and tenure. Regression coefficients of Japanese management practices and HQ control were nonsignificant for both in-role performance and knowledge sharing behaviors, indicating the full mediation by internalization of corporate philosophy. In all, the results from the multilevel analysis are generally consistent with the findings from the main analysis.

To check the robustness of the findings of our multi-level analysis, we directly tested the multi-level indirect effect, using the R package “mediation” (Tingley, et al., 2014). We performed the

2-2-1 mediation analysis wherein independent variable (Japanese management practices or HQ control) and mediation (internalization of corporate philosophy) variable were at the team level and a dependent variable (in-role performance or knowledge sharing behavior) is at the individual level with the quasi-Bayesian Monte Carlo method. We conducted four separate multilevel mediation analyses for Japanese management practices on in-role performance, Japanese management practices on knowledge sharing behavior, HQ control on in-role performance, and HQ control on knowledge sharing behavior, all of which are mediated by internalization of corporate philosophy. The results indicated that in the two models with Japanese management practices as independent variables, indirect effects were statistically significant at the $p < .05$ level ($B = .16, p < .05, 95\% \text{ CI } [.03, .33]$, $B = .18, p < .01, 95\% \text{ CI } [.04, .35]$, respectively) and in the cases of two models with HQ control as independent variables, indirect effects were significant at the $p < .10$ level ($B = -.11, p < .10, 95\% \text{ CI } [-.25, .00]$, $B = -.13, p < .10, 95\% \text{ CI } [-.25, .00]$, respectively). These results lend additional support to Hypothesis 4.

To test our Hypotheses 5 and 6, we conducted the moderated regression analysis using team-level variables. The results are shown in Figure 2 and Table 4. As shown, in contrast to our prediction, we found significant negative moderating effect of team boundary work on the relationship between Japanese management and internalization of corporate philosophy ($\gamma = -.18, p < .001$). The result of the simple slope analysis is shown in Figure 3. It shows the positive relationship between Japanese management and internalization of corporate philosophy is stronger when team boundary work is low ($b = -.18, p < .000$) rather than high ($b = .12, n.s.$). Therefore, Hypothesis 5 was not supported. On the other hand, we found negative significant moderating effect of team boundary work on the relationship between HQ control and internalization of corporate philosophy ($\gamma = -.33, p < .001$). The result of the simple slope analysis is shown in Figure 4. It shows the negative relationship between HQ control and internalization of corporate philosophy is stronger when team boundary work is high ($b = -.16, p < .000$) rather than low ($b = .17, p < .01$). Therefore, Hypothesis 6 was supported.

Figure 2 goes about here

Table 4 goes about here

Figure 3 goes about here

Figure 4 goes about here

DISCUSSION

The purpose of this study was to investigate the role of corporate philosophy internalization in managing foreign subsidiary employees of Japanese MNCs. Given that Japanese MNCs extensively use work teams in their operations, including their foreign operations, we investigated the factors including Japanese management practices and HQ control which influence the internalization of corporate philosophy among work teams in foreign subsidiaries and the mediating role of the corporate philosophy internalization between Japanese management practices / HQ control and foreign subsidiary employees' behaviors. Our findings also revealed the moderating effect of team boundary work on the relationship between Japanese management and HQ control on one hand and the internalization of corporate philosophy in work teams on the other hand. In previous studies, Japanese MNCs were viewed as having culturally specific management practices and emphasizing corporate philosophy as an essential foundation for managing employees. However, there is little research on identifying the factors that promote the understanding and internalizing corporate philosophy among local employees in their foreign subsidiaries. Our theoretical model and the empirical study demonstrated that promoting the internalization corporate philosophy in work teams influenced the in-

role performance of employees' in foreign subsidiaries and their knowledge sharing behaviors, and Japanese management and HQ control influenced the understanding and internalizing corporate philosophy among local employees in the Thai subsidiaries. In addition, we found that the indirect effects were statistically significant.

Although most of our hypotheses were supported, the moderating effect of the team boundary work on the effect of Japanese management, as stated in Hypothesis 5, turned out to be the opposite direction and thus was not supported. We can interpret the results of Hypothesis 5 as follows. First, we assumed that teams which often implement Japanese management practices in ordinary operations internalize corporate philosophy because they may have opportunities to interact with other teams to acquire information and knowledge from them, which in turn the teams have opportunities to consider the meaning of the information and knowledge in terms of corporate philosophy. The positive relationship between Japanese management and internalization of corporate philosophy was supported as Hypothesis 2. In contrast to our prediction, however, the result of moderated regression analysis showed a significant negative moderating effect of team boundary work on the relationship between Japanese management and internalization of corporate philosophy. Whence, we can explain that teams of foreign subsidiaries with low level of implementation of Japanese management, ordinary operations tend to be done in local ways. Thus, corporate philosophy is less apt to internalize within the teams. When team boundary work is low, that is, team boundary work does not very conduct within companies, corporate philosophy internalization promotes in teams of these subsidiaries. It means that Japanese management has a mutually complementary relationship with team boundary work.

The findings of our study contribute to the literature on international HRM. Previous studies have tended to focus on the roles of expatriates in successfully managing foreign subsidiary employees. However, owing to the geographical, cultural, and institutional distance between HQs and foreign subsidiaries, MNCs are struggling to manage local employees to achieve their corporate goals. As one solution, we proposed that the role of corporate philosophy should gain greater attention in academia (Bartlett and Ghoshal, 1989; Nohria and Ghoshal, 1994; Takao and Wang, 2012). However, there is little research on identifying the factors that promote the understanding and internalization of

corporate philosophy among the employees of foreign subsidiaries. This is the first study to examine the impact of Japanese management and HQ control on employees' in-role performance and knowledge sharing behaviors and the mediating role of corporate philosophy internalization through using Japanese MNCs data. We also revealed the moderating effect of team boundary work on the relationships between Japanese management and internalization of corporate philosophy and between HQ control and internalization of corporate philosophy at team-level. Prior studies on team boundary work have focused on demonstrating its contributions to team performance (e.g., Ancona and Caldwell, 1992), less attention has been given to understanding its mediating role in the context of international business.

Our findings also have implications for the practice of international human resource management in MNCs. First, the internalization of corporate philosophy fosters local employees' identification with their organization, which in turn, encourages local employees in foreign subsidiaries to align their attitudes and behaviors with their organization's corporate goals. Second, Japanese management promotes the internalization of corporate philosophy among foreign subsidiaries' employees while HQ control has negative impact on the internalization of corporate philosophy. In particular, our study shows that in foreign subsidiaries that implement Japanese management at the high level with under weak HQ control situations promote to internalization of corporate philosophy. Even though team boundary work is low, the Japanese management is positively related to internalization of corporate philosophy. From the result, we can suggest that managers more need to encourage their employees to learn corporate philosophy through on-the-job training and off-the-job training, which in turn influences foreign subsidiaries' performance.

The findings of our study should be viewed in light of some limitations, which provides the opportunities for future research. First, our study is based on the sample of only seven Japanese manufacturing companies in Thailand. To enhance understanding of how corporate philosophy is disseminated and internalized at MNCs' foreign subsidiaries, future research should replicate and extend our findings with different MNCs in different regions. Particularly, because our study may reflect the unique characteristics of Japanese MNCs, it will be useful to conduct further comparative

research on the role of corporate philosophy in foreign subsidiaries in Japanese, American, and European MNCs in Thailand or other countries. This will extend our understanding of how corporate philosophy can help to manage local employees in host countries. Third, because our data is essentially cross-sectional, the causal inferences from our analysis is limited. Therefore, future research needs to more rigorously demonstrate the mediation effects of internalizing corporate philosophy on the relationship between the environmental factors in foreign subsidiaries and employees' behaviors. In this regard, future research could utilize a longitudinal research design to enhance causal inferences.

In conclusion, the present study developed a new theoretical framework that helps to understand the management of MNC's foreign subsidiary employees by focusing on the role of internalization of corporate philosophy at the subsidiaries. By doing so, our study opened a new avenue for future research about how can MNC socialize its employees across border and what factors promote the process.

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Table 1. Descriptive statistics and correlations of key variables at individual-level in this study

Variable	Mean	SD	1	2	3	4	5	6	7					
Among individual-level variables ^a														
1	Age	33.18	5.87											
2	Gender	1.55	0.55	-0.07										
3	Tenure	5.58	4.74	0.59	***	0.06								
4	Internalization of corporate philosophy	3.39	0.79	0.12	*	0.04	0.14	**						
5	Japanese management practices	3.42	0.88	-0.05		0.14	**	-0.06	0.08					
6	HQ control	2.92	0.9	0.05		0.08	-0.05	-0.14	**	0.17	*			
7	Knowledge sharing behavior	3.3	0.86	-0.04		0.01	0.01	0.29	***	0.21	***	-0.15	*	
8	In-role performance	3.81	0.82	-0.14	**	0.07	-0.04	0.23	***	0.26	***	-0.17	***	0.67
Among group-level variables ^b														
1	Internalization of corporate philosophy	3.5	0.53	1										
2	Japanese management practices	3.5	0.74	0.35	***									
3	HQ control	2.93	0.79	-0.2	***	0.31	***							
4	Team boundary work	3.46	0.58	0.68	***	0.34	***	-0.15	**					

^aNote. $N = 371$. *** $p < .001$, ** $p < .01$, * $p < .05$

^bNote. $N = 66$ teams. *** $p < .001$, ** $p < .01$, * $p < .05$

Table 2. Results of confirmatory factor analysis and structural equation modeling

Model	Description	χ^2	df	CFI	TLI	SRMR	RMSEA
Model 1	Confirmatory factor analysis (measurement model)	1151.89	454	0.81	0.80	0.08	0.09
Model 2	Confirmatory factor analysis (one-factor model)	2867.93	464	0.36	0.31	0.17	0.16
Model 3	Original model	1251.31	545	0.81	0.80	0.08	0.08
Model 4	Model 3 + Direct paths from HQcontrol and Japanese management practices to In-role performance and knowledge sharing behavior	1241.26	541	0.81	0.80	0.08	0.08

Table3. Tests of the multilevel indirect effects

Independent Variable	Mediator	Dependent Variable	B	95%CI		
				Lower	Upper	
Japanese management practices	Internalization of corporate philosophy	In-role performance	0.16	*	0.03	0.33
Japanese management practices	Internalization of corporate philosophy	Knowledge sharing behavior	0.18	**	0.04	0.35
HQ control	Internalization of corporate philosophy	In-role performance	-0.11	†	-0.25	0.00
HQ control	Internalization of corporate philosophy	Knowledge sharing behavior	-0.13	†	-0.28	0.00

Note. $N = 197$. *** $p < .001$, ** $p < .01$, * $p < .05$, † $p < .10$

Table4. Results of hierarchical regression analysis for team boundary work

variables	model 1	model2	model3	model 4
intercept	0.001	0.022	0.023	0.006
Japanese Management	0.104 ***		0.090 **	
HQ control		-0.068 *		0.005
Team boundary work	0.651 ***	0.694 ***	0.654 ***	0.693 ***
Japanese management * Team boundary work			-0.183 ***	
HQ control * Team boundary work				-0.333 ***
ΔR^2	0.476 ***	0.497 ***	0.492 ***	0.550 ***

Note. $N = 66$ teams. † $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

Figure 1. The theoretical model

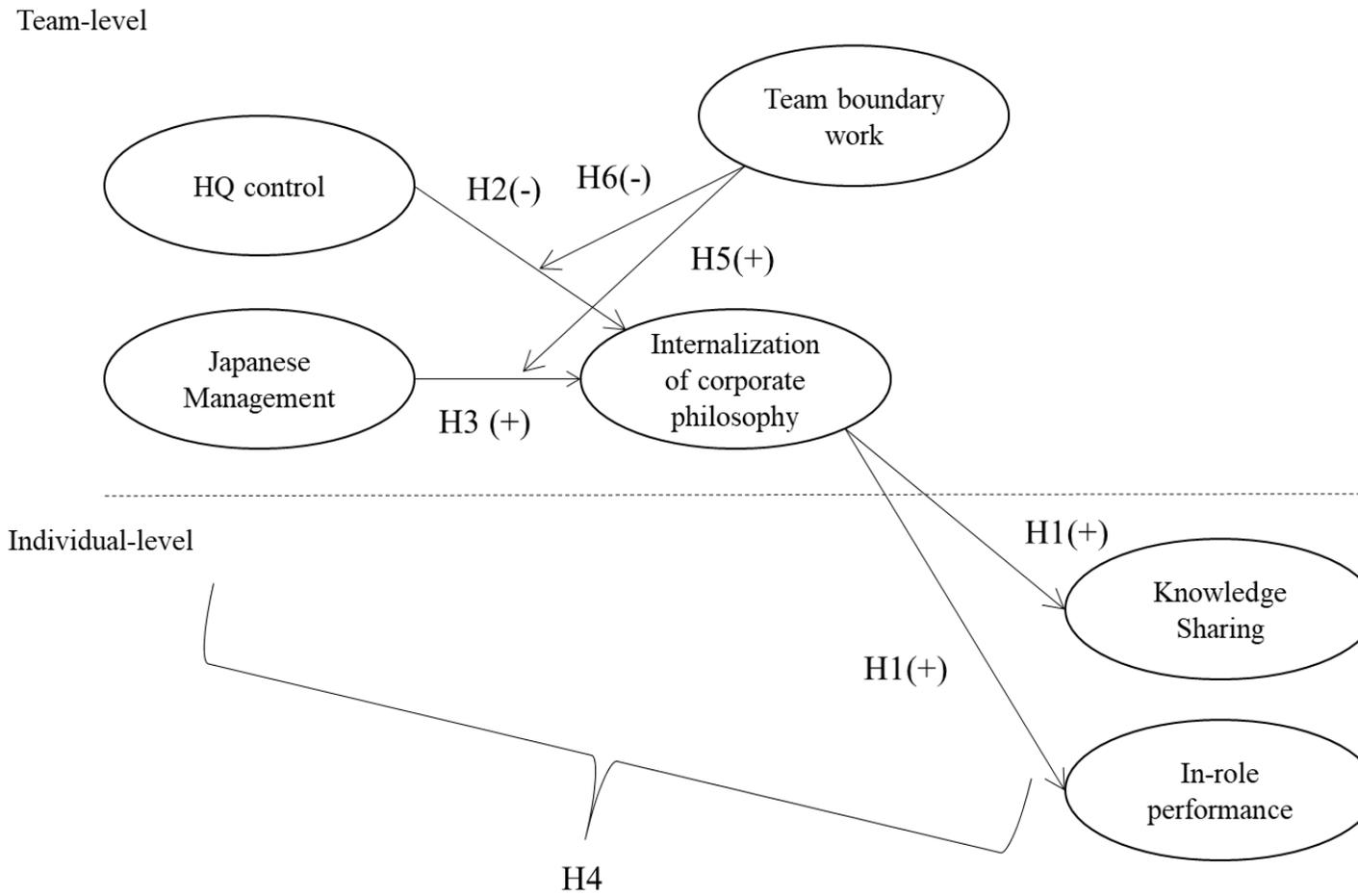
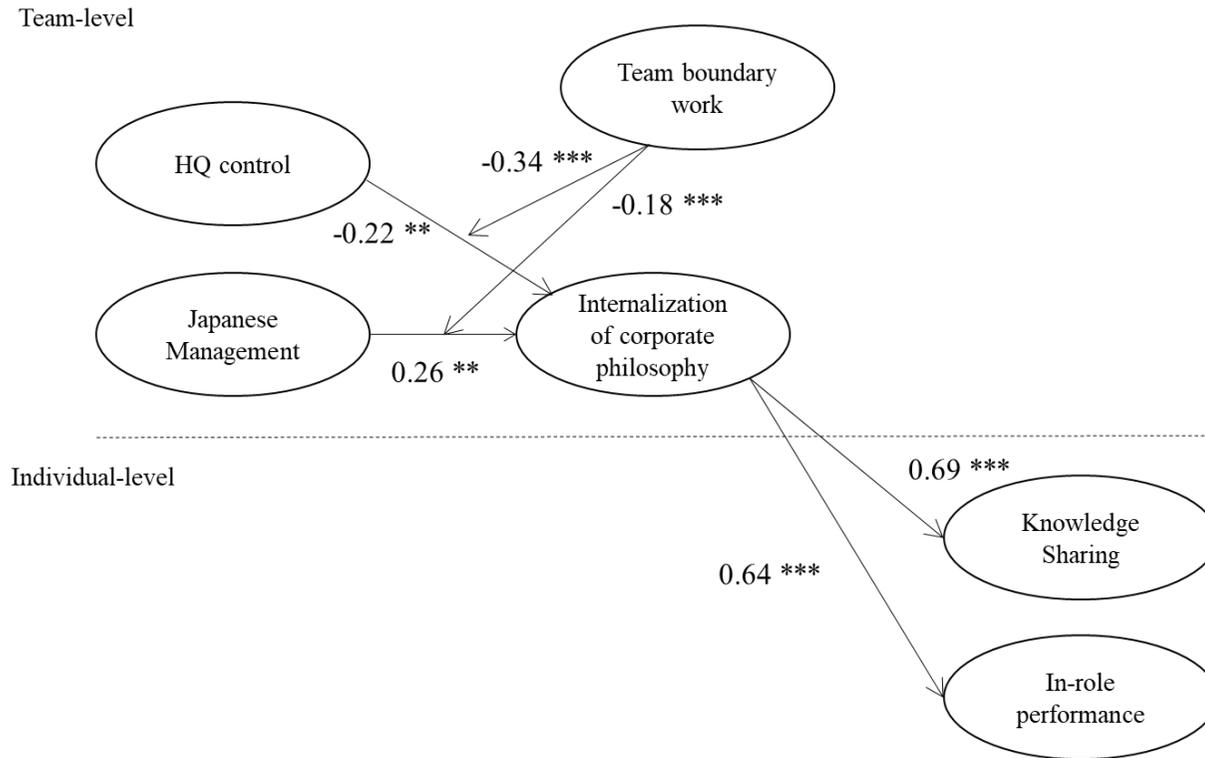


Figure 2. Multilevel analysis



Note. 371 individuals nested in 66 teams. Path coefficients are standardized. ** $p < .01$, *** $p < .001$. Paths from team boundary work to the relationship between HQ control and Japanese management on one hand and internalization of corporate philosophy on the other hand reflect the results of the moderated regression analysis.

Figure 3. Plots of interaction between Japanese management and team boundary work on internalization of corporate philosophy

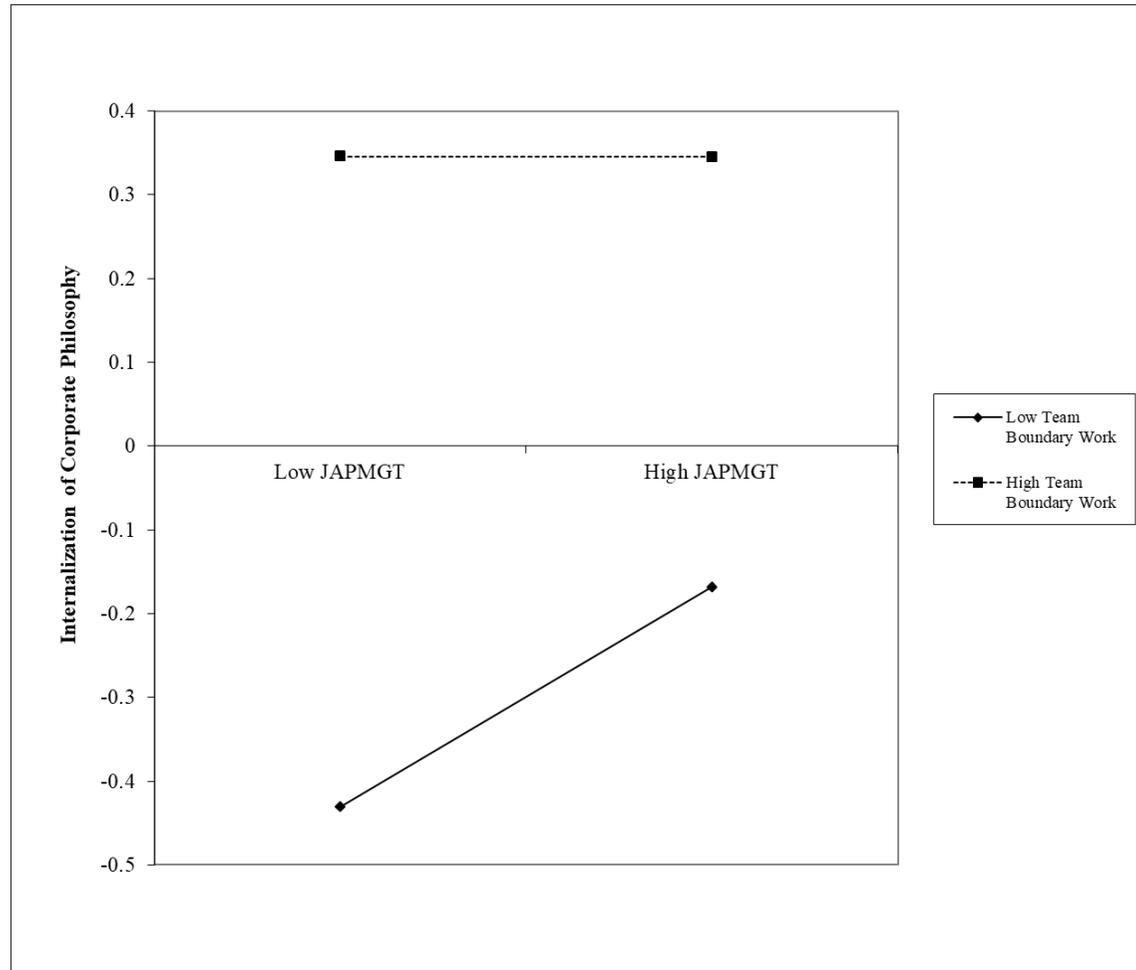
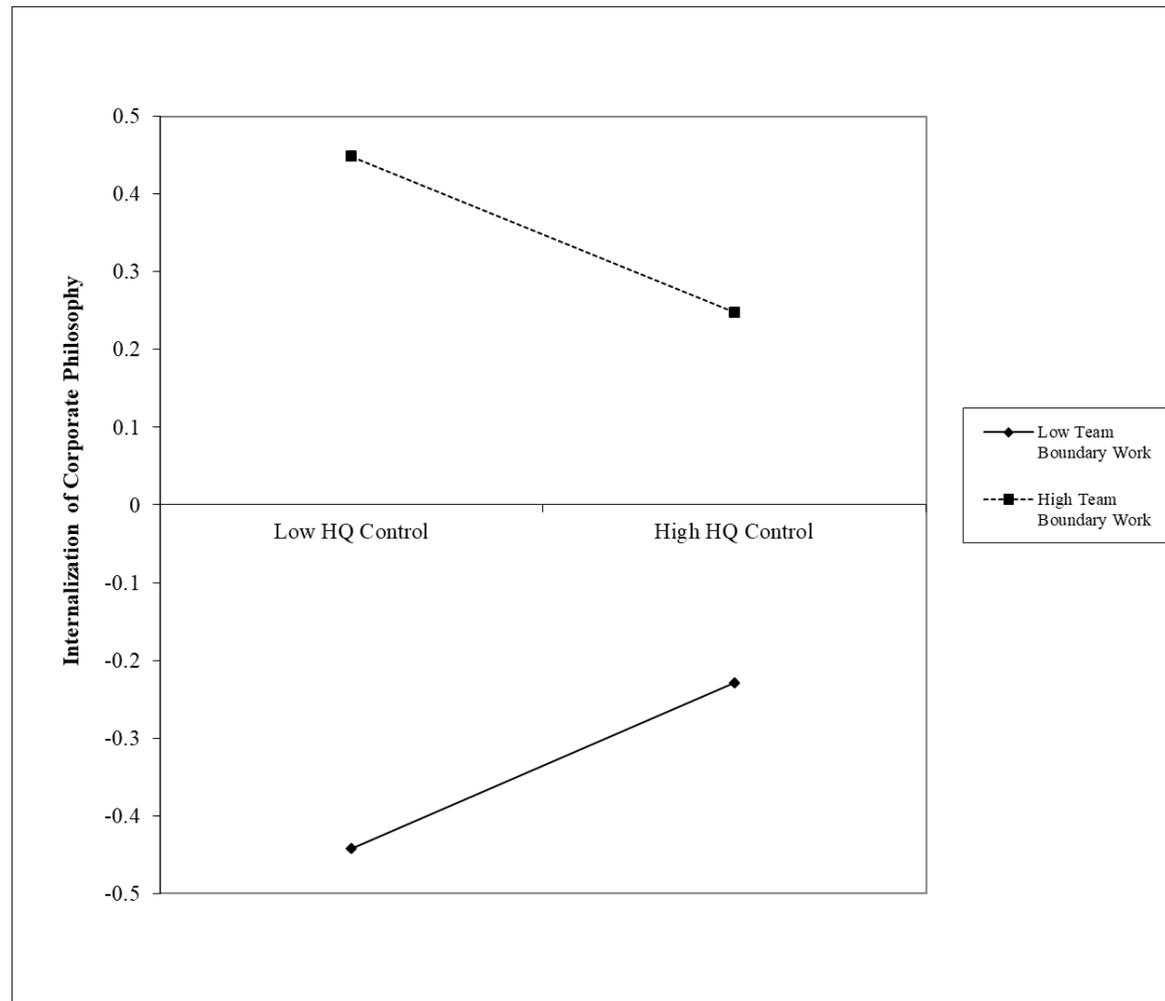


Figure 4. Plots of interaction between HQ control and team boundary work on internalization of corporate philosophy



Network relationships do not always help startup internationalization:

A quantitative assessment of the role of VCs in the context of Japan

Masahiro Kotosaka (Keio University)

Shirley Daniels (University of Hawaii at Manoa)

ABSTRACT

The challenges of early stage internationalization is to obtain resources, knowledge, and capabilities (Knight and Cavusgil, 2004), especially for nascent firms. A way to overcome the challenges is to utilize networks (Idris & Saridakis, 2018, Pinho & Prange, 2016). However, it is not yet well understood how exactly networks contribute to the early stage internationalization. Hence we focus on the involvement of external stakeholders, especially venture capitals (VCs) of their non-financial roles such as advising or introducing for startup internationalization.

Using a questionnaire survey of Japanese startup firms, we examined the importance of understanding the incentives and motives of stakeholders. The survey was sent to Japanese startups that have been established within the last 10 years and are in ICT (Information Communication Technology) industries. The questionnaire included the degree of internationalization and the support startups received from various external stakeholders.

The findings are as follows. First, we investigated the number of stakeholders providing support for the startups, which we defined as the 'width' of the support. Our empirical results show that it positively relates to the internationalization of startups, which is consistent with previous literature that points out the extent of a network is an important factor for the success of internationalization (Dimitratos, Amorós, Etchebarne, & Felzensztein, 2014, Eberhard & Craig, 2013, Yu, Gilbert, & Oviatt, 2011).

Second, we investigated how the stakeholders' support (introduction of business partners and advice on the business model) influences startup internationalization. The results show that among stakeholders, VCs are the most reluctant to support the internationalization of their investee firms, whereas other financial

investors for startups such as banks and angel investors stimulate internationalization. This finding is consistent with the recent debate concerning the conflict of interest between VCs and other stakeholders.

Third, we found that such a conflict of interest between VCs and other stakeholders is severe and might mitigate the support from other stakeholders. The results show that an increase in the percentage of VC investment moderates the positive relationship between the width of support by various types of stakeholders for internationalization. Such moderation by VCs happens especially when firms belonging to industries where internationalization is uncommon. The industry mean of the export intensity mitigates the VC's moderation effects.

Contrary, we also found that VCs' various types of "hands-on" activities positively related to overall firm growth, indicating their tangible capabilities to support startups despite the negative impact of their involvement on internationalization. Further, once VCs supported internationalization, they brought positive outcomes measured by the number of exporting countries and the quantity of exports.

The combination of these findings suggests that while VCs have the abilities to support the investee startups to grow, VCs may prevent them from internationalizing, most likely in certain institutional environments similar to Japan because VCs are less incentivized for investee internationalization there.

This study contributes to two streams of the literature. First, we detailed the mechanism by which networks help the early-stage internationalization of nascent firms. Previous literature points out the uniqueness of the internationalization process among small and young firms (Jones, Coviello, & Tang, 2011, McDougall & Oviatt, 2000), and our findings suggest a pronounced influence of external stakeholders, such as VCs, on their internationalization behaviors. VCs help and prevent the internationalization of their portfolio companies, and the way that they influence on the internationalization of the portfolio companies may depend on their incentives, which are subject to the institutional environment, in our case, Japanese start-up business environment.

Second, our study contributes to the literature on venture capital studies. While previous literature points out the importance of hands-on activity to enhance the value of investee firms, such activities are not well understood. Indeed, through a survey analysis in nine European countries, previous literature has found

that VCs do not support the internationalization process of their portfolio companies (Luukkonen, Deschryvere, and Bertoni, 2013). Our study reveals the hands-on activities by various types of stakeholders and shows the uniqueness of the VCs' activity. This is in line with the previous literature that explains the disagreement between VCs and other stakeholders of portfolio companies. (Higashide & Birley, 2002, Yitshaki, 2008). We argue that in a situation or environment where internationalization would not provide higher expected return, VCs are reluctant to support the internationalization of their investee firms. This would be why our result taken from Japan indicated VCs tend not to support internationalization, despite that they have the abilities to support.

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JABA Session Extracts

International and horizontal transfer of production technology system
in Japanese-multinational corporations:
In search of the effect that overseas child factory teaches
Yutaka Fujioka, Seinan Gakuin University

Abstract:

This study focused on international and horizontal transfer of production technology system in Japanese-multinational corporations, and aimed to clarify the effect that an overseas child factory taught it to other child factories in the same corporation. We defined the production technology system as “combination of a variety of production technology elements or the whole of them”, and horizontal transfer as “the process that an overseas child factory taught other child factories in the same corporation production technology system.”

Previous studies related to multinational corporation, technology transfer and knowledge transfer have been interested in “vertical” transfer, in which a mother factory in home country taught overseas child factories production technology system. Especially, they have focused on how effectively the overseas child factory could be taught. However, this study hypothesized that the overseas child factory did not learn a lot of things only through being taught by a mother factory, but also through teaching the other child factories. Therefore, we tried to verify the hypothesis that an overseas child factory could learn and gain many things through international and horizontal guidance of production technology system.

Based on Toyo Keizai Inc.’s Overseas Japanese Companies Data (Text Version 2019), this research extracted 3,025 overseas subsidiaries located in U.S.A., Thailand, Indonesia, Vietnam, Malaysia and Taiwan with more than five years’ operation in Japanese-multinational corporations. We posted a questionnaire to them from July to November in 2019 and finally could acquire 391 responses (13.4% of effective sent questionnaires).

This study constructed analytical model that an overseas child factory developed conceptual skill of engineers and operators through guiding the other child factory production technology system. As a result of multi-regression analysis, it was found that technology guidance by engineers and operators indirectly affected development of their conceptual skill through codifying the production technology system, which could make it be easily taught.

In the next stage of our research, we tested the causal effect relationship by using structural equation modeling (SEM). The analytical result proved the existence of causal effect mechanism that an overseas child factory could make the production technology system be codifiable and teachable by guiding the other child factory, and then the transformation process of production technology system in a child factory in guidance could develop conceptual skill of engineers and operators. These processes brought independence and competitiveness to the child factory which had taught.

Based on these analysis, we concluded that (1) international and horizontal transfer of production technology system had the effect that an overseas child factory could indirectly develop conceptual skill of engineers and operators through guidance and codification of production technology system, (2) multinational corporation should promote international and horizontal transfer of production technology system in order to develop overseas child factories, and (3) vertical transfer by mother factory in home country continued to be important for overseas child factories to establish core production technology system.

Globalization of Japanese sake and food:

A function of intermediaries for diffusing sake and Japanese food abroad

Shohei Hamamatsu, Seikei University

Yasuyuki Kishi, Niigata University

Takeyasu Ichikohji, Tohoku University)

Abstract

This paper argues how Japanese cultural food or beverage has diffused abroad in terms of paying attention to food distribution. Nowadays, Japanese foods are consumed all over the world. In 2013, Japanese food was registered as UNESCO intangible cultural heritage and Japanese food culture got world recognition. The number of Japanese restaurants drastically increased in a decade. Why Japanese restaurants drastically increased in a decade? This paper describes process of the diffusing Japanese restaurants abroad by analysing intermediaries of Japanese food or sake, which are the most contributing factors to increase Japanese restaurants abroad.

In order to explore the diffusion of Japanese food or sake, we conducted interview survey with production companies, distributors, trading companies and those who are related to Japanese restaurants suppliers in US. In particular, we interviewed with major Japanese food trading companies such as Mutual Trading, Nishimoto Trading, JFC Trading and so on. In addition, we got much information from Yokose Seafood, which is a fish shop mainly dealing with Japanese restaurants in Los Angeles. Moreover, we interviewed with sake makers produced in US. We also participated in Japanese Food & Restaurant Expo which is held by Mutual Trading company. Only owners or chefs of restaurants permit to participate in this Expo. We conducted interviewed with exhibitors and participatory observation in it.

This paper reveals following eight issues.

- 1) Each Japanese trading companies is different one from another in terms of strong points of product items and takes an important role as intermediaries between production company and restaurants or sake shop.
- 2) Japanese trading companies set up several product items and sell them as a full set model.
- 3) Japanese trading companies deals not only foods or flavouring materials but also dishes or cooking tools in order to support restaurants opening and management.

- 4) Restaurants design is different by nationality of the owner.
- 5) A trading company sales team depends on nationality of the owner.
- 6) High sales food products in Japan are not always accepted in US and original products developed in US sometimes are sold a lot in US.
- 7) More high-quality ingredients are used for differentiation.
- 8) We can find co-evolutionary process that diffusing Japanese food in US market increase high premier sake which import from Japan.

Supplier's decision-making in content platforms: A case of the Japanese video
distribution ecosystem

Kaori Togashi, Aichi Shukutoku University

Rikiya Tsuchihashi, Aichi Gakuin University

Tatsuyuki Negoro, Waseda Business School

Abstract:

This study discusses the decision-making of suppliers in terms of how they provide products to multiple platforms (PFs). We focus on an ecosystem in which suppliers and PFs compete in part of the value chain but simultaneously cooperate to generate revenue. This research explores how Japanese broadcasting companies make decisions when providing their own content to the PF they manage and other video distribution PFs.

In the ecosystem literature, suppliers and PFs create and appropriate value while maintaining both competitive and cooperative relationships (Hannah & Eisenhardt, 2018; Jacobides, Cennamo, & Gawer, 2018). For this reason, suppliers are required to make decisions regarding on which PF to offer their products and how to appropriate value. Suppliers are required to make such decisions to improve their profit efficiency because they are creating value by providing their products to PFs that are simultaneously competing for value appropriation (Wang & Miller, 2019). Aydin et al. (2019) argue there are several theoretical studies on supplier multi-homing, in which a supplier provides its products to multiple PFs, but there are few empirical studies. By analyzing the Japanese video distribution ecosystem, the current study clarifies how suppliers make multi-homing decisions.

Based on a multiple case study of supplier (5 broadcasting companies) that engage in multi-homing for video distribution PFs (19 companies), we classified the following three levels according to the operation types. The primary PFs are directly managed by the suppliers. The secondary PFs have a capital alliance with suppliers. The tertiary PFs are independent company suppliers who do not invest capital.

The results of interviews with suppliers and analysis of archival data such as papers, magazines, and newspapers reveal the following points. First, all suppliers provide their content to multiple PFs. Second, there are two strategic types of multi-homing. One is the "defense" strategy, in which the companies locked killer content only in their primary and secondary PFs. On the other hand, companies that do not have their own primary and secondary PFs adopt the "expansion" strategy in which the company supplies their content to all tertiary PFs. The degree of expansion is different among the suppliers. This is probably because each company has a different policy regarding the balance between the differentiation orientation of the defense strategy and the revenue strategy of multi-homing.

The academic contribution of this study is that it clarifies the decision-making for multi-homing from a supplier perspective in the ecosystem in which suppliers and PFs

compete in part of the value chain but simultaneously cooperate to generate revenue. This perspective has not been fully discussed in the ecosystem literature.

Influences by foreign investors on Japanese corporate payout policy and employment

Yumiko Miwa, Meiji University

Shinji Tsubouchi, Kanazawa Seiryō University

Abstract:

This paper examines how foreign investors have been actually influencing the Japanese corporate management since the 2000s.

In recent years, “activist shareholders” have been increasingly demanding a dividend increase or stock repurchase to many companies in Japan. The Corporate Governance Code has been applied to the listed companies since 2015 in Japan. Because “Sound discussion with shareholders” which is called “Engagement between companies and investors” is required in the code, it is easier for activist shareholders to demand distribution of profit to the corporate management. In terms of dividend, total dividend paid by the companies listed on the first section of the Tokyo Stock Exchange was on the upward trend (approximately 5 trillion yen) since 2009, and the amount eventually exceeded 11 trillion yen in 2016. Also, Activist shareholders ask for profit return through stock repurchase. On the other hand, “Activist shareholders” demand cost reduction for efficiency of management. Activist shareholders are mainly foreign investors and make various demands to corporate management. Their ultimate goal will be “the maximization of shareholder value”.

Historically Japanese companies have had pro-employees’ policy. However, there is a big-push for changing Japanese corporate system from foreign investors. If the companies with high percentage of foreign investors ownership, would they increase dividend or cut the number of employees? Are there the trade-off between shareholder’s interest and employees’ interest? We performed regression analysis on foreign investor’s ownership, the payout policy and the employment policy.

Our main findings are that there is a trade-off relation between shareholder’s interest and employee’s interest and that the trade-off could be substantially strengthened by an increase in the number of foreign investors. In a corporate critical condition, like a deficit situation, foreign investors may not pursue their own interest. Also, in a critical condition, foreign investors would work to decrease employee’s interest. Finally, stock repurchase would play a role of compensation of suppression of dividend but not an influence by foreign investors.

The logic of malfunctions of emergent strategy in large Japanese companies
Yukari Mizuno, Kokushikan University

Abstract:

I presented at joint session AJBS and JABA in AIB which titles were named “Understanding to Make Use of Proprietary Technologies from the Case Studies of Japanese SME’s” in 2016 and “Cause of Strength of Japanese SMEs is Still Implementing Emergent Strategy” in 2018 based on my researches. I focused on the phenomenon of using proprietary resources and implementing emergent strategy in Japanese companies.

Emergent strategy has focused on the absence of intension of top managers, learning effects from middle and lower managers, who are vital to implement tactics when faced with changing environments, and utilizing companies’ proprietary resources. Emergent strategy is cited one type of resource-based view of the firm and the learning school of strategy safari (Mintzberg, Ahlestrand, and Lampel, 1998).

Japanese companies, especially large companies, were said to have achieved emergent strategy until the late 1980s. One of the most famous examples of this strategy is the case of Honda’s motorcycle strategy in the US market (Mintzberg, Ahlestrand, and Lampel, 1998). Honda attempted to expand their motorcycle business in the US with large-sized motorcycles, the company thought that potential customers in the US would be attracted by large-sized motorcycle. Honda did not consider that small-sized motorcycles with only 50cc engines could capture potential customers in the US. However, motorcycle buyers working at the Sears department store suggested that Honda should sell small-sized motorcycle named the Super Cub (Honda used the Super Cub for transportation between agencies). Consequently, the Super Cub became one of the bestselling small-sized motorcycles in the US. Therefore, Japanese companies implementing emergent strategy was said to the reason of prospering Japanese economy and getting global competitiveness.

This type of strategy was said to be gone until 1990-2000s in large Japanese companies. Why have emergent strategies disappeared from large Japanese companies and what is the reason for the malfunction of such strategy? This is the theme of my current presentation subsequently to my last two presentations at joint session AJBS and JABA.

This presentation analyze the phenomenon of strategy malfunction in large Japanese companies into three types and identify the logic and the reasons leading to the malfunction of emergent strategy.

Obsolescing Bargain Theory for Power Changes in International Joint Venture of Japanese MNE and its Asian Entrepreneurial Partner

Shinichi Takeshita, Graduate School of Economics, Kyoto University

Abstract:

Control is a critical issue for the relationship between successful management and performance of international joint ventures (“IJVs”) since Geringer and Hebert (1989) defined control as the process by which one partner influences, to varying degrees, the behavior and output of the other partner, through the use of power, authority and a wide range of bureaucratic, cultural and informal mechanisms. The power relations between host governments and multinational enterprises (“MNEs”) in the mining and oil industries have been extensively analyzed using the Obsolescing Bargain Theory (“OBT”). (Vernon, 1971) More recently the extent of control within IJVs has been perceived to be the result of negotiation reflected by the partners’ relative bargaining power in the OBT framework. (Blodgett, 1991).

This research analyzes the chronological changes in the governance structure of an IJV in a painting business between a Japanese MNE acting as parent and a Singaporean firm acting as subsidiary at the outset. IJV was first established in Singapore in 1962 and later expanded successfully in 16 countries throughout Asia and China regions to become a world’s fourth largest from seventh place in 50 years. As a contingent outcome of the implicit and explicit bilateral negotiations between them, this IJV experienced various power changes in the course of the development of the subsidiary initiative. As a consequence, this IJV was ended up as a transformational MNE upon a reversal of parent-subsidiary relation through an internalization. This paper aims to address on the research question: “How and why the series of power changes were taken place in the IJV and how a transformational MNE was created?”

The analytical lens relies on the bargaining power framework in the OBT which addresses what drives organizations to enter into interdependent relation with other organizations to seek for needy resources and the subsequent shift in bargaining power. While there are significant number of researches based on the OBT in extractive industries against the host governments to date (Vachani, 1995), few attempts were made to apply the OBT framework to the analysis of the interdependent relation of IJV partners of the manufacturing companies in the private sector.

Using the qualitative single case study method, the relative changes in the bargaining power in this IJV is analyzed in five business cycles in the pre-IJV setup, Southeast Asia business, China business, an uncertainty occurred in 2013 and eventually a-tail-wags-the-dog event arose in 2018. This research is of value in extending research on the OBT, particularly to an IJV in the manufacturing industry without a presence of any government actors as an exploratory case.

Keywords: International joint ventures, Multinational enterprises, Obsolescing bargain theory, Power shift, Subsidiary initiative

A study of changes in Japanese and US management systems:

Case of railroad companies

Aya Tanaka,

The Ohara Memorial Institute for Science of Labour

Abstract:

This study compares the management systems of Japanese and US railroad companies. The development of Japanese and US railroad companies plays an important role in supporting the growth of their economies and many industries. The railroad companies of both the countries follow different national policies and have developed suitable private strategies. This is based on their respective social and cultural backgrounds and unique management styles.

Japanese and American railroad companies have different management styles.

Before Japanese railroads began following the national policy, they were controlled by private companies. The operations of Japanese railroad companies were controlled by the government until the 1980s. When these companies changed their management styles, safety and skill support measures improved across the world. This helped Japanese railroad companies to grow internationally.

In contrast, when American railroad companies were private, these companies formed Amtrak. American railroad companies developed after 1800s. Through the present study, there could be a change in the railroad management systems and the developed industrial structure in America. The issue of bonds and stocks by railroad companies led to the development of the finance industry across Europe.

The development of railroad companies led to the growth of organizations, financing, human capital, etc. The organizational growth patterns and management of strategic challenges of Japanese and US railroad companies have changed considerably and now follow reformed management styles. In particular, US railroad companies are better equipped to resolve issues related to the management style of public transit. It is clear that companies reformed their management styles and developed processes that led to economic growth.

This study discusses the changes in the management styles of Japanese and US railroad companies.

The Study on gender differences in the effect of inclusion on retention
Waki Yukiko, Kyusyu Sangyo University
Mitsui Yuichi, Seinan Gakuin University

Abstract:

In America and some European countries such as Sweden and Kingdom of Norway female labor force participation rates by age shows an inverted U-shaped curve. Although it indicates an M-shaped curve in Japan, the valley between peaks gradually has raised up. In regard to turnover rate in Japan, intention to turnover rate of females is still higher than that of males by 4.6% in 2018 (Ministry of Internal Affairs and Communications, 2018).

To encourage female success in organization, many Japanese laws have been established and many companies have accepted initiatives about it. There are several laws about female success such as the Act on ensuring Equal Opportunities and Treatment of Men and Women in Employment.

Some companies are willing to undertake diversity management in Japan. For example, Panasonic has promoted diversity in employment. It has set up the diversity / organizational development office in the personnel department. Toyota also encourages diversity. The CEO of Toyota believes that Diversity and Inclusion of employment is important for the company. He is developing a work environment where all employees could play important role for the work.

In the diversity management researches, its important is insisted not only “diversity” which is employing demographic different people, but also “inclusion” which means belonging various employees to organization and involving their unique attribute (Neharika & Chari, 2015).

It is indicated that inclusion restrains retention (measured by retire intention) (ex. Shore et al., 2011), thus managers expect its effect on their company.

On the other hand, about employee perceptions of inclusion, it is important how employees make a sense about level of commitment to organization and of involvement to their unique attribute (Shore et al., 2011). Mor Barak (2017) indicates three dimensions of employee perceptions of inclusion; the decision-making process, information networks and level of participation, and involvement groups or organization.

From the above, in Japan, diversity management studies and initiatives are increasing, and researchers and managers focus on especially effect of inclusion. Despite increase of organization's inclusion initiative, female intention to turnover rate remains unacceptably high. Then, we have posed a question if perception of inclusion wouldn't influence female intention to turnover like as previous research. Therefore, the purpose of this study is to reveal the influence of inclusion to female intention to turnover on comparison between male and female.

In this study, we take up three factors – justice, job satisfaction, and well-being, which influence intention to turnover and which are affected by inclusion. To compare the influence of inclusion between male and female, we structure the model with five factors (inclusion, justice, job satisfaction, well-being, and retention (measured by intention to turnover)), and data are analyzed using structural equation modeling.

**THE IMPACT OF FIRM-, NATIONAL- AND SUBNATIONAL-LEVEL ADVANTAGES ON
JAPANESE FDI LOCATION IN GLOBAL CITIES OF EMERGING ECONOMIES**

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THE IMPACT OF FIRM-, NATIONAL- AND SUBNATIONAL-LEVEL ADVANTAGES ON JAPANESE FDI LOCATION IN GLOBAL CITIES OF EMERGING ECONOMIES

ABSTRACT

This study aims at identifying and estimating the determinants of localization of foreign direct investment (FDI) in emerging economies considering the subnational level. Based on international business literature, new economic geography, and institutional theory, the research uses an integrated conceptual framework to assess the impacts of the firm-, national- (host-country), and subnational-level advantages on location choices in global cities (GCs) of emerging economies. The sample comprises of 982 subsidiaries of Japanese multinational enterprises established in countries in Africa, Europe, Latin America, and Oceania. The results of the application of the multinomial logistic regression model showed that GCs in emerging economies are strongly attracted to FDI. The key determinants are the locational advantages related to market size and potential demand. More experienced subsidiaries are likely to be located within GCs. Ease of doing business and regulatory complexity drive investment away from GCs. It reveals the need to access the attributes of cities in emerging economies in a particular way. The study enriches the understanding of the determinants of the location of FDI by contributing to the existing literature by focusing on the subnational context in emerging economies.

Keywords: Location choice; Japanese Foreign direct investment; Subnational location; Global cities; Japanese Subsidiaries.

INTRODUCTION

The perspective of using the traditional foreign direct investment (FDI) location focused on the country level (Boeh & Beamish, 2012; Chung & Alcácer, 2002; Head & Mayer, 2004) has gradually become less relevant in the real world (Arita & McCann, 2002; Ma, Tong, & Fitza, 2013). It does not capture the nuances and heterogeneities existing between regions within each country (Chidlow, Salciuviene, & Young, 2009; Mariotti, Piscitello, & Elia, 2010), nor the relationship that occurs between these variations and the nature of the FDI behavior (McCann & Mudambi, 2004). In fact, in the end, MNEs choose a specific location within a country as a location for their investments (Goerzen, Asmussen, & Nielsen, 2013). It implies that instead of analyzing FDI location at the country level, current research has considered a more specific location element, which is the subnational level.

To advance the IB research agenda, Beugelsdijk and Mudambi (2013) emphasized the need to incorporate relevant insights into subnational spatial variation by adding them to the analyses of existing differences between countries. In the same vein, Rugman and Verbeke (2004) suggest that studies need to encompass a variety of factors that impact the MNEs' competitive advantages by extending the national level and including both regional trade blocs and subnational regional clusters.

The approach at the subnational level is traditionally more frequent in the new economic geography literature (Beugelsdijk, McCann, & Mudambi, 2010; Crescenzi, Pietrobelli, & Rabellotti, 2015; McCann & Mudambi, 2005). It used to apply a more refined lens to examine the spatial characteristics of economic activity distribution, whether at the level of cities, districts, or regions within a country. Although most of the IB literature still limited its analysis at the national level, more recent studies have focused on the subnational dimension (Chadee, Qiu, & Rose, 2003; Chan, Makino, & Isobe, 2010; Jo & Lee, 2014; Ma, Tong, & Fitza, 2013). These studies incorporate spatial aspects of the new economic geography (Krugman, 1991) to IB theory, such as agglomeration economies and the spatial dispersion of economic activities. According to Buckley (2016, p.78) competition between cities is more relevant than between

nations, which means that it involves both intranational (e.g., Tokyo versus Osaka) and extranational (e.g., Tokyo versus Osaka versus Singapore) aspects.

However, the current IB theory presents limitations to explain the decisions on the location of MNEs in subnational regions of emerging economies where the structural, institutional, and operational conditions are usually more challenging than other traditional FDI destinations. Thus, using the theoretical and methodological approaches primarily established in the context of developed economies to understand the heterogeneity of emerging economies expands the challenge of conventional wisdom (Wright, Filatotchev, Hoskisson, & Peng, 2005).

Emerging economies do not distinguish themselves from other economies only in terms of their national level of economic and social development, but especially in terms of the existing variations between their subnational geographical units (i.e., states, cities, or provinces). It means the existence of different aspects such as the institutional system (Chan, Makino, & Isobe, 2010), the size of their markets, the presence of agglomeration forces and natural resources (Venables, 2005), the concentration of industrial activities (Porter, 1998), the supply of infrastructure, the degree of human capital qualifications, among others.

This aspect suggests that the heterogeneity existing in subnational contexts of emerging economies may affect the choices of FDI location among alternative sites within a country. In this sense, combining the theoretical and empirical contributions of IB with economic geography from a subnational lens is a crucial way to advance the research agenda (Beugelsdijk & Mudambi, 2013).

This study assesses the differentiating effects that specific locational attributes can have on location choices. Dealing with the limitation of locations in emerging markets at the subnational level, we use the global cities (GCs) in emerging economies as a unit of empirical analysis. GCs are considered a strategic location where spatial, social and political development is strongly noticeable by their function as command and control centers, acting as dominant nodes of a networked global economy through which information, goods, capital, and people flow (Sassen, 2004; Timberlake, Wei, Ma, & Hao, 2014). GCs are prominent places for presenting attributes considered unique: a cosmopolitan environment, headquarters

of large national and MNEs, high levels of advanced service providers (e.g., finance, law, accounting, and advertising) and a high degree of connectivity with local and global markets (Beaverstock, Smith, & Taylor, 1999; Goerzen et al., 2013).

It is crucial to investigate the FDI location on GCs in emerging economies since the dominant GC literature had focused on Anglo-American bias or Eurocentric views of the global economy (Olds & Yeung, 2004). In this way, GC literature underestimates “the complexity, diversity, and interdependent nature of global networks, thereby marginalizing nodes of globalization in developing regions” (Godfrey and Zhon, 1999, p.269), while ignoring most important cities in the periphery and semi-periphery regions (Olds & Yeung, 2004). Furthermore, GCs in developed countries are considered “hyper GCs” by being very integrated into the global economy through both inward and outward flows (Olds & Yeung, 2004), acting in the command and control of the global economy (Sassen, 2004). While, GCs in emerging markets characterized by being more reliance on serving as coordinating centers responsible for receiving or channeling inwards flows from the global economy, while redirected and/or distributed further down the urban hierarchy in that country (Olds & Yeung, 2004, p.505). But these cities play a critical role within a country where key actors and institutions associated with the global space flows (Meyer, 2002).

In this way, this study aims to understand the specific effects of location attributes of GCs in emerging economies on the location choice of foreign subsidiaries. The basis of this research consists of understanding the determinants that lead to the decision to locate their investments within GCs of emerging economies or outside their centers (in metropolitan cities around these cities or in more distant peripheral cities).

This study offers three main contributions to the IB literature. First, this study makes the most vigorous use of the interdisciplinary potential that lies in IB theories and the new economic geography, contributing theoretically and empirically to both kinds of literature. In particular, concerning attracting FDI to global and peripheral cities in emerging economies, the study can also offer critical theoretical insights applicable to further studies. Previous research of FDI location decisions in CGs have not differentiated GCs of

advanced economies from GCs of emerging economies (e.g., Goerzen et al., 2013; Mehlsen & Wernicke, 2016), or have focused their interest on specific GCs of advanced economies (Nachum & Wymbs, 2005). A notable exception is Ma, Delios and Lau (2013), who compared alternative MNE location choices between two Chinese GCs: Beijing and Shanghai. However, it considers an intranational (i.e., cities from the same country) rather than an extranational (i.e., cities from different countries) perspective. This study intends to contribute to this literature by analyzing the extranational perspective in addition to three different locations: global cities, metropolitan cities, and peripheral cities. Second, it offers a complete understanding by proposing the use of an integrated structure of location determinants based on three levels: the country, the city, and the firm. Prior studies have prioritized the relationship between subnational location choices using only one of the determinant dimensions in an unrelated manner. In this way, this study responds to the calls from scholars for more refined analyses of subnational effects on MNEs (Beugelsdijk & Mudambi, 2013; Buckley, 2014) decisions contributing to IB research as a whole. Finally, this study also provides significant contributions to the decision and policymakers by broadening the understanding of FDI localization strategy mechanisms in emerging markets at the subnational level.

LITERATURE REVIEW

Theoretical perspectives on FDI Location

One of the main theories to explain the determinants of FDI and the internationalization of MNE activities is the well-known eclectic paradigm of international production or OLI paradigm (Dunning, 1980; Dunning & Lundan, 2008). The theory proposes that companies' decisions to produce in foreign countries depend on the existence of three combined advantages: ownership advantages (O), location advantages (L), and internalization advantages (I).

Ownership advantages refer to the benefits of a company owning specific assets or resources that its competitors do not possess, and that can be exploited abroad. These advantages include tangible assets such as financial capital, equipment, human and material resources, or intangible assets such as the ability to access intermediate and final markets, technological knowledge, economies of scale, managerial skills,

patents, among others. Location advantages are specific to a country and include the availability of natural resources, market potential, low input prices, good infrastructure conditions, political and economic stability, low labor costs, and production incentives by host governments. These advantages should be analyzed in conjunction with the “O” advantages of the model since the benefits generated by the location are related to the evaluation of how profitable it is to exploit the existing resources in foreign countries together with the specific assets of the company (Dunning, 1980). Finally, the internalization advantages denote to the benefits to MNE of producing using its assets domestically through hierarchies (organizations), rather than selling them to the market. Therefore, “I” advantages represented the company’s ability to produce and market its goods through the network of subsidiaries. The “O” and “L” advantages must be complemented by internalization to overcome transaction costs, such as those related to transportation, information, tariff and tax differences between countries, and other market imperfections.

Another essential theoretical approach is the framework proposed by Rugman (1981) regards to a quadrant that is composed of the firm-specific advantages and by the country-specific advantages (FSA-CSA). FSA consists of exclusive firm resources such as the degree of technological development of the product or process, the know-how level, marketing skills, and distribution capabilities. CSA includes allocations of natural resources, quality, and quantity of workforce, cultural factors, institutional characteristics or public policies focused on an attractive business environment. Rugman (2010) reconciled the FSA/CSA structure with Dunning’s OLI approach. Thus, the model can be used to analyze the existence of an MNE as a result of the combination of FSA (i.e., “O” and “I” advantages) with CSA (i.e., “L” advantages).

The institutional perspective (DiMaggio & Powell, 1983; Scott, 2013) and the new institutional economy (North, 1987), has advanced as a robust conceptual framework for analyzing MNE strategies and their link with the institutions (Kim & Aguilera, 2015; Mudambi & Navarra, 2002; Nielsen, Asmussen, & Weatherall, 2017; Xu & Shenkar, 2002). At the fundamental level, institutions contain elements of a

regulatory, normative and cognitive nature, identified as three pillars of the institutional environment. The regulatory pillar involves current laws and rules that are sanctioned and enforced by the state. The normative system imposes social restrictions through norms that are followed and enforced by the population and indicate a pattern of social behavior. The cognitive pillar is constituted by culturally interpreted and shared values and conceptions about the meaning of social reality (Scott, 2013).

By investigating the impacts of economic institutions on choosing the subnational location of FDI in Chinese subnational regions, Du, Lu and Tao (2008) found that American MNEs prefer to localize their investments in regions of China that have a more business-friendly economic and institutional environment, such as intellectual property rights protection, less government intervention in business operations, lower government corruption and better performance of contracts. It reinforces the importance of subnational economic institutions in attracting FDI to emerging markets.

The perspective of the new economic geography (NEG)

The subnational spatial dynamics, which is the main focus of studies in NEG, such as the externalities of industrial and urban agglomeration, have become fundamental to the understanding of the FDI location choices. Subnational spatial variation is often the characteristic that drives the firm's strategy since MNEs decide to locate in certain agglomerations and not in random locations within a country (Beugelsdijk & Mudambi, 2013).

Fujita and Thisse (1996) pointed out that the spatial configuration of economic activities results from a process that involves two opposite types of forces: agglomeration or centripetal forces, which generate benefits to the location of firms and people, due to the existence of increasing returns of scale (Krugman, 1991). It allows the company to appropriate external economies such as market access, labor and knowledge overflows; and dispersal forces, or centrifuges, that drive the deconcentration of economic activity and the remoteness of the region, due to factors such as property rent, transportation costs, traffic jam, and pollution.

Although in the most recent studies cities can be considered critical locations for MNEs (Blevins, Moschieri, Pinkham, & Ragozzino, 2016; Chadee et al., 2003; Goerzen et al., 2013; Nachum & Wymbs, 2007), they differ in size, economic power and hierarchical levels according to the different characteristics of relationship and connection with global operations (Beaverstock, Smith, & Taylor, 1999; 2001). This phenomenon, reflecting current trends towards urbanization, is particularly pronounced for GCs and peripheral cities of emerging economies, subnational spaces that have been attracting increasing global FDI inflows (McDonald et al., 2018).

Global cities

Traditional thinking about the city that treated urbanization processes as regional or national phenomena opened space for a new approach, which places the city in the broader context of the development of the world economy (Alderson & Beckfield, 2006). This new perspective led scholars to analyze the emergence of a transnational urban system centered on a series of key cities that derive their importance in the global economy from a privileged position in transnational networks of capital, information, and people.

Friedmann (1986) was the first exponent in this literature. He proposed the concept of a world city as a control and command center that rose in the context of an intense process of geographical transformation of the capitalist world economy. It characterized by the new international division of labor (Cohen, 1981) as a result of the internationalization of MNE production (Beaverstock et al. 2000; Derudder, De Vos & Witlox, 2012; Knox, 1996). The second exponent is Sassen, who sees the increasingly articulated world economy through a global network of cities, with New York, London, and Tokyo at the top of the urban hierarchy. GCs play a central role in controlling and coordinating the international economy (Sassen, 2001, 2004) and have joint dominance over finance and most IB expertise (Castells, 2005).

The creation of new forms of territorial centralization and the rise of GCs is a result of the development of information technologies and the increase in the mobility and liquidity of capital. Also, changes in the international economic system characterized by privatization, deregulation, and opening of economic

borders to MNEs led to the weakening of national states and the strengthening of globalization (Sassen, 2004). From this perspective, the world channel network (WCN) is an interconnected system in which transnational relations among cities occur through the flows between advanced producer services of the world economy (Taylor, 2001).

Criticism and alternative proposals to this predominant perspective, especially the WCN approach, have been gaining ground in recent years. The common point of view to these views is that they propose to reformulate the debates (Shatkin, 2007), discuss conceptual models, and alternative methodologies to analyze the role and configuration of many “non-central” cities of emerging economies that are on the sidelines of studies and debate on GCs. In this line, Mans (2013) suggests analyzing the connections of a city “from the bottom up”, starting with the local context, which reveals the great importance of considering research in emerging economies the existing differences between GCs and the "spatial dimension that marks the specific globality of a region" (Sassen, 2010, p. 157).

GCs offer unique advantages such as the international connection, advanced producer services agglomeration, and the cosmopolitan environment (Pereira & Derudder, 2010; Taylor, Derudder, Faulconbridge, Hoyler, Ni, 2014). GCs are attractive for FDI associated with minimizing the operating costs in international markets - *liability of foreignness* (LOF), the company’s lack of legitimacy in the local environment, and the complexity of operating in a foreign market (Goerzen et al., 2013).

HYPOTHESES DEVELOPMENT

Based on the literature review, we propose a conceptual framework that relates three levels of advantages on the FDI location (i.e., GCs, metropolitan cities, and peripheral cities): (i) subsidiary-level advantages (FSA or “O” advantages); (ii) national-level advantages (CSA or “L” advantages); (iii) subnational-level advantages (Subnational Specific Advantages - SSA).

Subsidiary-level advantages

Local partner network

The IB research points out that partnership helps to minimize costs, risks, and transactional uncertainties associated with the FDI (Brouthers, 2002). However, collaboration with local partners could bring problems due to the opportunistic behavior of a foreign partner (Filatotchev, Stephan, & Jindra, 2008). An MNE with resources such as the relationship with partner firms can enjoy competitive advantages and more easily compensate for the LOF. Relying on a partner network in a location with an intense concentration of globally connected advanced producer services also generates benefits from agglomeration economies. MNE may face different levels of risk and difficulties in various location alternatives within an emerging economy. Thus, it expects that MNE is interested in exploiting the potential of local partners, more likely in more central cities than in more distant ones. Thus:

***H1a:** MNEs are more likely to locate their foreign subsidiaries in GCs rather than in metropolitan or peripheral cities when they have a higher local partner network in the host country.*

Firm Experience

International Business studies widely recognized the firm experience in a host-country as a valuable firm resource. For instance, the experience is an ownership advantage that influences international expansion (Alcacer & Chung, 2007; Li, 1994); entry mode strategy (Barkema & Vermeulen, 1998; Chang & Rosenzweig, 2001); subsequent investment decisions (Chang, 1995; Johanson & Vahlne, 1990; Nachum & Wymbs, 2002); and the ownership structure of FDI (Mutinelli & Piscitello, 1998). The literature also suggests that previous experience is considered a means for MNE to acquire familiarity with the local environment in terms of economic, political, and cultural conditions (Ogasavara & Hoshino, 2007; Shaver, Mitchell & Yeung, 1997). It provides superior information compared to the firms that start operating for the first time. It is also valid for GCs and metropolitan cities of emerging economies, where the institutional quality, as in other cities of these countries, can act as an inhibiting factor of FDI attraction. By enabling more in-depth knowledge about the location, combined with the attractions of the market size

and the benefits of the global connection network of services, the previous experience can compensate for possible difficulties of the institutional environment. Thus:

***H1b:** MNEs are more likely to locate their foreign subsidiaries in GCs rather than in metropolitan or peripheral cities when they have more significant experience in the host country.*

National-level advantages

Market size and potential demand

There is at least some emphasis on the characteristics considered as an essential destination location. It calls “pure economic factors” (p. 66) such as market demand, productivity levels, wages, and physical infrastructure that are behind the FDI location choices (Nielsen et al., 2017). Several empirical studies have confirmed a positive relationship between market size and FDI inflow in developing countries (Asiedu, 2006; Chakrabarti, 2001; Erdal & Tatoglu, 2002; Noorbakhsh, Paloni & Youssef, 2001; Resmini, 2000; Vijayakumar, Sridharan & Rao, 2010). Erdal and Tatoglu (2002) investigating the determinants of FDI location in Turkey found, on the one hand, that market size, together with infrastructure and opening economy to international trade are locational advantages for FDI inflows in the market. On the other hand, the lack of economic stability is a hindrance to MNE investments in the country.

The location advantages (CSA) related to the size and potential market demand at the national level have a positive impact on the choice of FDI location. Investors tend to consider with greater interest those locations within the country that offer location advantages related to market factors, such as central cities and their surrounding areas, which are generally more populous and economically more prosperous. This argument leads to the following hypotheses:

***H2a,b:** MNEs are more likely to locate their foreign subsidiaries in GCs rather than in metropolitan or peripheral cities when they have a larger market size (H2a) and a higher potential market demand (H2b) in the host country.*

Human capital

Although institutions and location advantages, based on infrastructure and human capital, are less developed in emerging economies (Hoskisson, Eden, Lau & Wright, 2000; Narula & Dunning, 2000), some studies have shown that human capital is also essential to attract FDI in these markets. For instance, Zhang and Markusen (1999) highlighted the importance of the availability of skilled labor in the host-country as a direct requirement of FDI flows. Lucas (1990) found that the lack of human capital discourages FDI for the least developed countries. Bengoa and Sanchez-Robles (2003) analyzed Latin American countries in the period between 1970 and 1990 and concluded that host countries need high human capital to benefit from long-term FDI inflows. There is evidence of the degree of occupational activities and incidences of different types of human capital throughout the urban hierarchy (Scott, 2008a). Large metropolitan cities at the top are denser concentrations of human cognitive capital (i.e., mental, behavioral, and cultural activities). While physical human capital (i.e., physical skills, manual dexterity, strength, and mechanical skills) related to standardized and capital-intensive sectors, tend to concentrate in smaller cities, or small metropolitan areas, at the lower end (Markusen & Schrock, 2006; Scott, 2008b). Thus, we argue that the effects of human capital on FDI inflows will possibly be more substantial in and around central cities, where the concentration of a more qualified workforce and better wage levels tends to be higher. Also, the lower labor cost and not the worker qualification is an FDI driver to peripheral cities. Hence:

***H2c:** MNEs are more likely to locate their foreign subsidiaries in GCs rather than in metropolitan or peripheral cities when they have a higher level of human capital in the host country.*

Quality of the institutional environment

Regulatory institutions provide legitimacy to organizations by enabling them to operate in the market following the relevant rules and legal requirements (Scott, 2008). Empirical studies have confirmed that favorable regulatory aspects such as stable economic policy, the security of property rights, less restriction of property rights, less bureaucratic systems and non-corrupt structures are conducive to attracting FDI

(Bevan, Estrin & Meyer, 2004; Grosse & Trevino, 2005; Pajunen, 2008). The interconnectivity that connects GCs exposes the local population to international market stimuli and the performance of financial service providers, large advertising agencies, and international consulting firms specialized in serving MNEs. These factors also strengthen the presence and functioning of governmental and political institutions, making GCs more conducive to the FDI location (Goerzen et al., 2013). In this sense, it expects that the effective functioning of the regulatory institutions of the business environment in GCs can attract the MNEs' investment to these locations.

Conversely, it expects that institutions in peripheral cities are less developed and, therefore, less attractive to MNEs' operations. Based on these arguments, we propose:

***H2d,e:** MNEs are more likely to locate their foreign subsidiaries in GCs rather than in metropolitan or peripheral cities when they have higher regulatory efficiency (H2d) and higher level of political stability (H2e) in the host country.*

Subnational-level advantages

Market size and potential demand

Previous studies used measures such as GDP per capita of provinces (Belderbos & Carree, 2002; Cheng & Kwan, 2000; Ng & Tuan, 2003; Zhou et al., 2002), population density and the total population of cities and provinces (Amiti & Javorcik, 2008; Chung & Alcácer, 2002; He, 2002; Mariotti & Piscitello, 1995), suggesting the importance of the local economic dimension especially for market-oriented FDI location strategies. For emerging economies where subnational disparities tend to be higher, the market size and the potential demand prevailing in central cities play a much more critical role in determining their attractiveness for FDI. Conversely, the increase in spatial distance from central cities is likely to hurt the location of FDI. Hence:

***H3a,b:** MNEs are more likely to locate their foreign subsidiaries in GCs rather than in metropolitan or peripheral cities when they have a larger market size (H3a) and a higher potential market demand (H3b) of the city.*

Human capital

In emerging economies, market support institutions are usually less sophisticated and generally offer fewer locational advantages based on infrastructure and human capital (Hoskisson et al., 2000; Narula & Dunning, 2000). Due to the intermediate positions that GCs of emerging economies occupy in the world urban hierarchy, on the one hand, the levels of concentration and qualification of human capital in these locations are potentially different from developed countries. On the other hand, it expects that, due to subnational heterogeneity, GCs offer a higher level of agglomeration of specialized human capital as a specific location advantage when compared to more distant locations within the country. Thus:

***H3c:** MNEs are more likely to locate their foreign subsidiaries in CGs rather than in metropolitan or peripheral cities when they have a higher level of human capital in the city.*

Quality of the institutional environment

Economies with weak regulations and inefficient processes for foreign firms receive fewer new FDI projects and lower FDI flows (Hornberger et al., 2011). Business regulation measures the extent to which a country's regulatory and bureaucratic measures restrict entry and reduce competition (Adams & Opoku, 2015). In a subnational context, local regulatory initiatives and practices, as well as other specific locational attributes, can demonstrate essential differences between locations within a country, and these configurations can facilitate or hinder new investments. Large urban centers in emerging economies are likely to have more time-consuming, bureaucratic and costly business regulatory practices than more distant locations due to their turnover, making this regulatory environment more complicated for the private sector. Conversely, the ease of doing business will increase as moving from the center to the periphery regions. Hence:

H3d: *MNEs are more likely to locate their foreign subsidiaries in peripheral cities rather than in metropolitan or GCs when they have a lower complexity of business regulation in the city.*

Figure 1 shows the conceptual framework with the respective hypotheses:

FIGURE 1 ABOUT HERE

METHODOLOGY

This study adopts a quantitative approach to estimate the effects of a set of independent variables (i.e., firm, national, and subnational advantages) on the FDI location at the subnational level (i.e., GCs, metropolitan cities, and peripheral cities). We collected data on the secondary database of foreign subsidiaries of Japanese MNEs called *Kaigai Shinshutsu Kigyō Souran - Kuni Betsu* (Japanese Overseas Investments: by country) published by Toyo Keizai (2016), which is widely used in the IB literature (Delios & Beamish, 2001; Goerzen & Beamish, 2007; Jiang, Beamish & Makino, 2014; Moreira & Ogasavara, 2018; Belderbos, Tong & Wu, 2019). After the exclusions of inconsistent and missing data, we have a final sample of 982 observations of foreign subsidiaries located in 58 emerging countries, including Africa (8.9% of the sample), Latin America (60.7%), Europe (29.2%), and Oceania (1.2%). Table 1 summarizes the description of dependent and independent variables with the respective signs of the hypotheses.

TABLE 1 ABOUT HERE

For the dependent variable (FDI location), to identify and distinguish GCs, we used the Globalization and World Cities (GaWC, 2018) classification of GCs for 2016. The GaWC consists of a hierarchy list of GCs classified as 49 alpha, 81 beta, 84 gamma, 35 high sufficiency, and 112 sufficiency cities. These cities rank in descending order in terms of how they integrate into the global economy. In this way, we classified the dependent variable into three categories in which the location of each subsidiary refers to

“0” in the peripheral cities (i.e., any location other than the metropolitan area and the CG); “1” in the metropolitan area around GCs; and “2” in the global cities.

To test the hypotheses, we use a multinomial logistic regression model that allows the categorical dependent variable to present more than two categories (Hair, Babin, Anderson & Black, 2018) in comparison with the analyses of binary responses. Our dependent variable is categorical with three response possibilities. Therefore, we use the model to estimate the probability of an MNE choosing its location in a peripheral city versus a global and a metropolitan city versus a GC, maintaining the location in the GC as the reference category. According to Greene (2000), the general structure of the multinomial logistics model can express as follows:

$$P_i = \text{Prob} (Y_i = j) = \frac{e^{(\beta'_j x_i)}}{\sum_{K=0}^J e^{(\beta'_K x_i)}}, \text{ for } j = 0,1,2 \quad (1)$$

where P_i represents the different probabilities of the FDI location choice: $Y_i = 0$, if the location choice is in a peripheral city; $Y_i = 1$, in a metropolitan city; $Y_i = 2$, in a GC; x_i , vector of explanatory variables; β , vector of parameters to be estimated and base of natural logarithms.

EMPIRICAL RESULTS AND DISCUSSION

Descriptive statistics

As can be seen in Table 2, the location of MNEs subsidiaries is strongly related to GCs. Approximately 59% of subsidiaries locate within GCs, and only 8% locate in surrounding metropolitan areas. The hierarchy of GCs prevails in the MNE location pattern, with 45% of the subsidiaries located in Alpha- or Beta-rated cities. In total, 68% of the subsidiaries in the sample located in GCs and their metropolitan areas.

 TABLE 2 ABOUT HERE

Table 3 shows the distribution of the location of subsidiaries at the different classification of the GCs and by the economic sector. There is a strong predominance of the service sector in GCs, with 76% of the total FDI location. Also, there is an increasing share of services as it moves towards the top of the ranking, with 81% and 88% of subsidiaries in alpha and beta cities, respectively. In the opposite direction, as it moves to the bottom of the GC classification, the industry sector is the most crucial attribute in the location of subsidiaries. The most substantial presence of industrial MNE occurs in peripheral cities, where 64% of established foreign subsidiaries belong to the manufacturing sector.

TABLE 3 ABOUT HERE

Results of the multinomial logistic regression models

Table 4 shows the results of the multinomial logistic regression models considering the GaWC definition of GCs (i.e., alpha, beta, gamma, high sufficiency, and sufficiency). The models depict the estimation of the logistical probability of an MNE choosing the location of its foreign subsidiaries in a peripheral or metropolitan city (i.e., positive) as opposed to a GC (i.e., negative). The models start by considering control variables with the subsidiary-level advantages (Models 1 and 2), incorporating the national-level advantages (Models 3 and 4), later the advantages of location at the subnational level (Models 5 and 6), and finally the three levels of advantages (Models 7 and 8) by integrating all explanatory variables into the regression models.

TABLE 4 ABOUT HERE

Subsidiary-level advantages

Regarding the subsidiary-level advantages, we found that none of the models showed statistical significance for the variable local partner's network. In Models 3, 4, 7, and 8, the sign of the coefficient is positive, although the result is not statistically significant. One of the explanations is that the partner network is more important to access existing resources outside GCs in emerging economies than within

them. These locations, farther from economic centers, have weaker institutions, and partner networks become important (Tan & Meyer, 2011). In Models 1, 5, and 6, which include the subsidiary- and subnational-level advantages, it shows negative signs. Although the partner network tends to influence the FDI location in GCs, its effects are not statistically significant. The fact that MNE has a larger number of local partner firms in the subsidiary's ownership structure, it does not significantly affect its location strategy in cities in emerging economies. Therefore, we cannot support H1a.

Firm experience shows a substantial effect on the probability of location in GCs in comparison with the peripheral cities as can be seen in Model 1 ($b=-1.42$; $p<0.001$), Model 3 ($b=-1.37$; $p<0.001$), and Model 5 ($b=-1.26$; $p<0.01$). It indicates that more experienced firms chose to locate within the GCs of emerging economies. In contrast, the less experienced firms decided to establish themselves in a more peripheral remote city. When it compares metropolitan with GCs, there are no statistical differences between them. It implies that it is more relevant to establish subsidiaries in a central area, which means either GCs or metropolitan cities. Thus, we can partially accept H1b.

National-level advantages

Regarding the national-level advantages, the findings indicate that in Model 4, the national market size has a more substantial effect on the propensity of the firm to locate its subsidiaries in GCs than in metropolitan cities ($b=-0.79$; $p<0.01$). In full models such as Model 7 ($b=3.29$; $p<0.001$) and Model 8 ($b=1.77$; $p<0.01$), there is an inversion in the coefficient sign, although the statistics remain significant. It implies that when taking together three levels of advantages, the national market size leads to the location choice of outside GCs (i.e., towards metropolitan and peripheral cities), contrary to the conceptual model prediction. As already found in the IB empirical literature, especially studies based on the OLI paradigm (Nielsen et al., 2017), the entire country's market size is an essential determinant of the national location of FDI. Therefore, the findings do not lead to support H2a.

The potential market demand at the national level is a determinant factor with a significant and robust effect on location towards metropolitan or peripheral cities, as can be seen in Model 4 ($b=4.66$; $p<0.001$),

Model 7 ($b=11.21$; $p<0.001$), and Model 8 ($b=14.38$; $p<0.001$). In Models 7 and 8, the behavior pattern of potential market demand affects similar to that of market size, indicating that the higher propensity for MNEs to locate their subsidiaries outside GCs. These results reinforce the argument that, in addition to the factors of the country's macroeconomic environment affecting the decision to establish FDI in emerging economies, the influence is higher on the probability of locating outside GCs. Thus, we cannot support H2b.

The human capital variable at the national level does not influence the choice of location. Although the results of Models 3, 4, 7, and 8 show a propensity for localizing in GCs, the effects are not statistically significant. It suggests that MNEs may also expand their operations into a host country to exploit the existing low-cost labor force (Makino, Lau, & Yeh, 2002) motivated by resource seeking (Dunning, 1998). An example is the French multinational group Tereos, the second-largest sugar producer in the world, which operates in 17 countries. Tereos also produces starch and bioethanol and has one of its 8 Brazilian units in Olímpia city, a small town in Brazil with a population of 54,000. Recently, Tereos inaugurated a Business Service Center (BSC) in the neighboring municipality of São José do Rio Preto in São Paulo State. This subsidiary is a shared corporate services center to manage the financial, human resources, and technology processes for all Brazilian units (Stefano & Liskauskas, 2018). São José do Rio Preto is a city with 456 thousand inhabitants and ranked 11th in the ranking of best cities to do business in Brazil by Revista Exame, the most relevant business magazine in Brazil. Tereos chose the city to receive the group's BSC due to the supply of qualified human capital, its strategic geographic position concerning the company's units in the country, the full offer of higher education courses, in addition to the infrastructure of hotels, highways, and airports (Stefano & Liskauskas, 2018). According to the firm's website, Tereos implemented the same model in France, in the city of Lille, from which the BSC will serve all the group's businesses on the European continent (Tereos, 2019). Therefore, the findings do not lead to support H2c.

As for institutional factors at the national level, Models 3 and 7 show significant positive results for the effects of regulatory efficiency ($b=0.04$, $p<0.01$; $b=0.10$, $p<0.01$ respectively) and political stability ($b=0.46$, $p<0.05$; $b=1.60$, $p<0.05$ respectively) on the propensity of MNEs to locate their subsidiaries in peripheral cities. Interestingly, there is an inversion of the expected sign in the coefficient of regulatory efficiency. A possible explanation for this is that a national business environment with good regulatory quality in the country provide a favorable condition to the distant peripheral cities from the center because, in addition to these attractions, these peripheral cities offer possible advantages such as less bureaucracy for doing business, cheaper real estate, and access to lower labor cost. Thus, we cannot support H2d and H2e.

Subnational-level advantages

The subnational-level advantages show the most robust impact on the probability of the location choice. The results demonstrate that subnational (city) market size has a significant effect on the propensity of MNEs to locate their subsidiaries in GCs as can be seen in Model 5 ($b=-6.93$, $p<0.001$), Model 6 ($b=-6.87$, $p<0.001$), Model 7 ($b=-8.24$, $p<0.001$), and Model 8 ($b=-7.95$, $p<0.001$). In addition, the potential market demand at the subnational level has an impact on the location in GCs in Model 5 ($b=-1.15$, $p<0.05$), Model 7 ($b=-10.17$, $p<0.001$), and Model 8 ($b=-6.85$, $p<0.001$). These findings lead to the support of H3a and H3b.

However, contrary to the prior empirical studies on the FDI location in GCs, the results indicated that the human capital of these cities has no impact on the location choices. Curiously, the results of Model 5 ($b=6.29$; $p<0.05$) show a positive effect of human capital on location in peripheral cities. It implies that when considering jointly the subsidiary- with the subnational-level advantages, we found that a better educational level in peripheral cities moves the FDI away to places farther from the GCs. Thus, we cannot support H3c.

Regards to the complexity of business regulation at the subnational level, it shows that the degree of regulatory complexity strongly affects the choice of FDI location. It takes out of the GCs as can be

observed by positive and high significant coefficients in Model 5 ($b=2.65$, $p<0.001$), Model 6 ($b=3.56$, $p<0.001$), Model 7 ($b=3.92$, $p<0.001$), and Model 8 ($b=4.37$, $p<0.001$). These findings reinforce the existence of heterogeneity in the business regulatory environment at the subnational level. Furthermore, it demonstrates that the number of regulatory procedures and costs for doing business in GCs of emerging economies drives FDI away to more distant locations. It implies that peripheral cities show easy and quick regulatory procedures that make the local business climate more favorable to FDI. Thus, the findings lead to support H3d.

CONCLUSION

This study shows that the concept of GCs cannot directly take as a general paradigm. The attributes of cities in emerging markets, even under the label of GCs, are very distinct from their counterparts in the advanced countries. Therefore, their effects on the MNE behavior should be assessed in a particular way, analyzing the connections of a city “from the bottom up,” taking as a starting point the local context (Mans, 2013).

We can highlight four significant contributions to IB literature. First, the “L” advantages of the OLI paradigm (Dunning, 1980; Dunning & Lundan, 2008) have a robust subnational effect on FDI location choices in emerging economies. The main subnational determinants of FDI location in GCs of emerging economies are the locational advantages related to the market size and potential demand, both “purely economic” factors (Nielsen et al., 2017). It not only reinforces the relevance of the relationship between MNE and this type of “L” advantage but mainly highlights the differences between “emerging GCs” and GCs of developed countries.

Second, regards to the firm’s “O” advantages, our results show that the size of subsidiaries located in alpha and beta GCs are much smaller than subsidiaries located in third level integration cities (gamma+, gamma, and gamma-) and those located in cities that present “evidence of the formation of CGs” (high sufficiency and sufficiency). The subsidiary size is inversely proportional to the choice of location in the GC hierarchy, with the smaller subsidiaries established in alpha cities, while the larger in peripheral cities.

It confirms that subsidiaries located in top-ranked GCs are those associated to the service sectors, while cities in the bottom rank of GCs are those in the manufacturing industry with more labor-intensive. The findings related to the effects of firm experience indicated that more experienced subsidiaries chose to locate within GCs in emerging economies. These results, although partial, could explain that MNEs with less experience prefer to establish themselves outside GCs to explore the advantages of being first-mover advantages in the market (Meyer, 2005).

Third, contrary to expectations, human capital has not presented a relevant effect as a potential determinant of the FDI location in GCs, both at the national and subnational levels. It is even more evident that the emerging GCs attract more FDI because of their market attributes rather than their role of control, global command, and potential for innovation or technology.

Finally, we show robust results regarding the effects of national and subnational institutional variables, particularly those related to the business regulatory environment. Notably, the findings indicate that institutions play a much more critical role in attracting FDI to the periphery than in central locations within the GCs of emerging economies. The ease of doing business in countries and the regulatory complexity of cities drive FDI out of GCs, also denoting a higher bargaining power of MNEs in obtaining benefits and incentives from local governments in smaller and more remote cities.

Nevertheless, this study has some limitations. We test our hypotheses using a sample of Japanese MNEs during a specific year (i.e., 2016). Further research should investigate MNEs from other countries, since they may have different strategic objectives and, therefore, respond differently to the attributes of GCs in emerging economies. Also, because it is a cross-sectional study, there is no evidence of a temporal relationship between the sets of characteristics that constitute the explanatory variables of the model and the FDI location choices. Future studies should consider longitudinal analyses, although we know the difficulties of collecting this type of subsidiary data. Also, we have a substantial operational problem related to the availability of subnational data in emerging countries. Mainly, there is a lack of standardized systems in official statistics for the disaggregated level of information. Standardized subnational data for

cities are not widely available for most countries. We collected much of the socioeconomic data on a case-by-case basis, by searching on websites and checking on census data and reports published by official agencies of each country. There is a clear avenue of opportunities for developing further research on FDI location considering the subnational level.

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Figure 1 – Conceptual framework and hypotheses

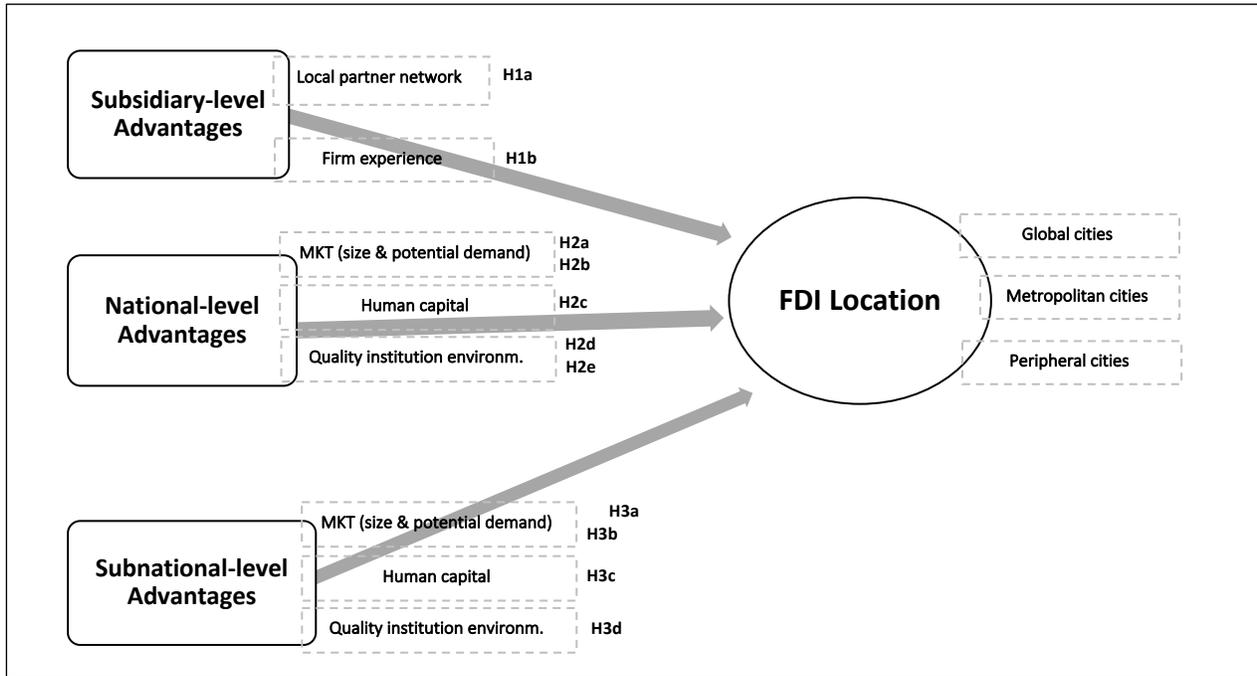


Table 1 - Variables description

Variables	Description	Sign	Hypoth.
Dependent Variable			
FDI Location	Subsidiary location: "0" for peripheral cities; "1" for metropolitan cities; "2" for global cities		
Independent Variables			
<i>Subsidiary-level Advantages</i>			
Local partner network	Number of local partners in the host country.	(-)	H1a
Firm experience	Log of the experience of the subsidiary in the host country, in years, calculated by subtracting the year 2016 and the year of establishment	(-)	H1b
<i>National-level Advantages</i>			
Market size	Log of the population of the host country	(-)	H2a
Market potential demand	Log of the GDP per capita of the host country	(-)	H2b
Human capital	Log of the average years of study of individuals aged 25 or more in the host country	(-)	H2c
Regulatory efficiency	Ease of Doing Business Score	(-)	H2d
Political stability	WGI (World Governance Indicators) for Political Stability	(-)	H2e
<i>Subnational-level Advantages</i>			
Market size	Log of the population of the city	(-)	H3a
Market potential demand	Log of the GDP per capita of the city	(-)	H3b
Human capital	Log of the average years of study of individuals aged 25 or more in the city	(-)	H3c
Complexity of business regulation	Average of three groups of indicators (number of procedures required, cost and time): Opening a business; Obtaining construction permits; Registration of properties.	(+)	H3d
Control Variables			
Subsidiary Size	Log of the number of employees		
Ownership	Dummy: "1" for wholly-owned subsidiaries; "0" for joint ventures		
Industry sector	Dummy: "1" for manufacturing firms; "0" for service firms		

Source: Authors

Table 2 - Distribution of subsidiaries by location

Classification	Number of Subsidiaries			Percentage		
	Global cities	Metropolitan cities	Total	Global cities	Metropolitan cities	Total
Alfa (n=9)	338	37	375	34	4	38
Beta (n=23)	111	30	141	11	3	14
Gama (n=17)	29	1	30	3	0	3
High sufficiency (n=8)	44	3	47	4	0	5
Sufficiency (n=16)	60	11	71	6	1	7
Total of Global Cities (n=73)	582	82	664	59	8	68
Peripheral cities (n=228)			318			32
Total of subsidiaries			982			100

Source: Authors

Table 3 - Distribution of subsidiaries by industry sector

Classification	Number of Subsidiaries			Percentage (row)		
	Service	Manufact.	Total	Service	Manufact.	Total
Alfa	275	63	338	81	19	100
Beta	98	13	111	88	12	100
Gama	18	11	29	62	38	100
High sufficiency	21	23	44	48	52	100
Sufficiency	32	28	60	53	47	100
Global cities	444	138	582	76	24	100
Metropolitan cities	42	40	82	51	49	100
Peripheral cities	115	203	318	36	64	100

Source: Authors

Table 4 - Models of multinomial logistic regression of subnational location

Models	1	2	3	4	5	6	7	8	
	<i>Peripheral</i>	<i>Metropol.</i>	<i>Peripheral</i>	<i>Metropol.</i>	<i>Peripheral</i>	<i>Metropol.</i>	<i>Peripheral</i>	<i>Metropol.</i>	<i>Hypot.</i>
	vs.								
	<i>Global city</i>								
<u>Subsidiary-level Advantages</u>									
Local partner network	-0.01	0.85	0.08	1.47	-1.35	-0.62	4.24	4.31	H1a (-)
Firm experience	-1.42 ***	0.18	-1.37 ***	0.08	-1.26 **	0.59	-0.56	1.09	H1b (-)
<u>National-level Advantages</u>									
Market size			0.01	-0.79 **			3.29 ***	1.77 **	H2a (-)
Market potential demand			-0.38	4.66 ***			11.21 ***	14.38 ***	H2b (-)
Human capital			-1.18	-5.15			-2.66	-10.65	H2c (-)
Regulatory efficiency			0.04 **	-0.02			0.10 **	0.04	H2d (-)
Political stability			0.46 *	0.03			1.60 *	0.54	H2e (-)
<u>Subnational-level Advantages</u>									
Market size					-6.93 ***	-6.87 ***	-8.24 ***	-7.95 ***	H3a (-)
Market potential demand					-1.15 *	1.43	-10.17 ***	-6.85 ***	H3b (-)
Human capital					6.29 *	4.62	-0.43	8.09	H3c (-)
Complexity of business regulation					2.65 ***	3.56 ***	3.92 ***	4.37 ***	H3d (+)
<u>Control Variables</u>									
Subsidiary Size	0.57 ***	0.31	0.56 ***	0.37 *	0.47 *	0.21	0.11	-0.11	
Ownership	-0.06	-0.49	0.04	-0.49	-0.48	-0.72	-0.92	-1.00	
Industry sector	-1.38 ***	-0.87 **	-1.40 ***	-0.85 **	-0.95 **	-0.55	-0.51	-0.03	

Notes: * significant at level $p < 0.05$; **, ** significant at level $p < 0.01$; ***significant at level $p < 0.001$.

The effect of culture on management practices and work climate: Evidence from local, non-international firms and foreign, international firms in Vietnam

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Abstract

As the title of Hofstede's seminal work (1980) on cross-cultural management, *Culture's Consequences*, indicates, culture matters in international business settings. Although researchers recognize the importance of culture in international business, how it matters is under-researched. Researchers are called upon to increase the extant understanding of the roles played by culture by examining the process and conditions by which a cultural effect takes place in international settings. Against this backdrop, I have explored the mediated, moderated, and moderated-mediated relations between culture and positive work climate, based on evidence from local, non-international firms and foreign, international firms in Vietnam. The results indicate that Japanese multinationals are managed better in Vietnam than local companies, even though they operate in a different national environment.

Key words: societal culture, high performance work practices, positive work climate, multinational corporations, conditional process model.

INTRODUCTION

Multinational corporations operate and their international managers work in the host countries' national environment, which is different from that of their home countries. The differences and similarities involved in this context determine the success and failure of international organizations and their managers. When international managers conduct business in their host countries, national factors that they would or should pay attention to include the form of government, political risks, economic system, economic growth, laws and regulations, education system, a variety of stakeholders, such as consumers and human-rights activists, corruption, terrorism, and so forth (Deresky, 2017; Hill & Hut, 2020; Wild & Wild, 2019). International managers have to consider and embrace the numerous and various environmental factors surrounding a nation into which they are considering entry or have already entered, in order to succeed in the host country.

International business researchers and managers have paid special attention to the role played by culture among other national factors that are expected to determine the success and failure of an international business (Kirkman, Lowe, & Gibson, 2017). This might be because culture is immediate to international business managers and they recognize its significance in international business activities, even though they might not be aware of the impact of culture when conducting business in their home countries; they may not recognize the effect of societal culture on their business activities until their multinational companies have gone global and they begin to work outside of their home countries. Culture matters in international business settings, as the title of Hofstede's seminal work (1980) on cross-cultural management, *Culture's Consequences*, indicates. Where companies go global and become multinational corporations, consequences are observed in a wide range of management activities and practices, from communication, negotiations, leadership, team activities, decision-making, and planning, to human resource management practices and so forth (Tsui, Nifadkar, & Ou, 2007; Tung & Stahl, 2018). When a certain management activity or practice fits with a culture, it will be driven by the culture and work well in the society; otherwise, it might fail (Mendonca & Kanungo, 1994). For instance, the cultural values of egalitarianism and collectivism are associated with the use of seniority-based remuneration, while non-egalitarian and individualist cultures support the use of performance-based remuneration (Newman & Nollen, 1996; Schuler & Rogovsky, 1998). The success and failure of those management activities or practices will ultimately determine individual or team outcomes.

Thus, organizations are bound by culture (Hofstede, 1980). Culture can affect and restrict management practices, in general, and human resource management practices, in particular. Human resource management practices are most sensitive to cultural effects, as they are designed by those who have grown up and socialized in a culture (Laurent, 1986). Those individuals' assumptions and values are translated into management practices, which are thus a cultural artifact of a society. When employees are dispatched to different countries, expatriate workers and managers might be aware that management practices from their headquarter organizations do not work in their host countries.

Although culture is associated with the nature of management practices, it seems that a cultural impact on those practices might not be similar between different organizations. Multinational organizations are more likely to employ what is called high performance work practices or best practices (Baron, & Kreps, 1999; Huselid, 1995) than non-multinational enterprises (Bloom, Genakos, Sadun, & Reenen, 2012). Thus, it is expected that the effect a certain culture has on management practices and beyond will vary by different forms of organization, such as domestic, non-international firms and foreign, multinational firms, in a host country.

Although researchers recognize the significance of culture in international business settings, how culture matters is under-researched (Stahl & Tung, 2015; Tung & Stahl, 2018). Researchers are required to examine the process by which culture affects employee and team outcomes and the conditions under which the effects vary (Stahl & Tung, 2015), in order to increase an understanding of the role played by culture in international business settings. Responding to such a call to advance knowledge in regard to the role of culture in international business settings, in this research, I explore the mediated, moderated, and moderated-mediated relations between culture and work outcomes, based on evidence from local and foreign companies in Vietnam. More specifically, I explore the effect of culture on positive work climate through high performance work practices and the conditional indirect effects of culture that are moderated by organizational forms, ranging from local to multinational firms. The multinationals involved were Japanese.

I have chosen high performance work practice among other management practices as the mediator variable. Strategic human resource management research stresses the effect of management practices on performance and calls those practices high performance work practice or best practice (Baron, & Kreps, 1999; Huselid, 1995), as they are expected to have an effect on individual or organizational outcomes. High performance work practices lead to positive work outcomes, such as work engagement and well-being (Dreher & Dougherty, 2002). Although the effect of these practices is considered to be universal across nations, it might in fact be different between cultures (Brewster, 1999; Pudelko, 2007). In this research I explore the effect of culture on these practices, as I expect high performance work practices to be a culture-bound, not culture-free, phenomenon.

This study contributes to cross-cultural research through the way in which it explores why culture matters by examining the process by which a cultural effect on positive work climate, as a work outcome, is mediated by management practices and the conditions under which the indirect effect varies depending on local versus foreign international firms. It also contributes to international research in general and Japanese management research in particular, through its examination of whether or not Vietnamese culture is effective in regard to high performance work practices, and whether or not Japanese multinationals are managed well in the Southeast Asian country of Vietnam.

THEORETICAL DEVELOPMENTS

The Effect of Culture on Management Practices

Multinational corporations and their international managers who are considering entry into or conducting ongoing business in different nations take the host countries' environments into account in order to succeed in overseas business (Deresky, 2017; Hill & Hut, 2020; Wild & Wild, 2019). The environmental factors of different countries to consider include the form of government, laws and regulations, economic growth, ethics, corruption, stakeholders, languages, etiquettes, infrastructure, terrorism, and so forth. Culture is no more or less critical than other environmental factors, as it forms a basis for the way people live in a society. Thus, culture is a cornerstone in a society, bolstering other environmental factors, such as laws and ethics, which could affect and interact with culture. Culture is defined by Hofstede (2001) as the collective programming of the mind. It manifests itself in the values and visible practices of rituals, heroes, and symbols. It is thought to affect an organization and its management practices, as an organization is bound by culture (Hofstede, 1980). Culture is a key variable in studies conducted in the field of comparative human resource management, as it is expected to be an antecedent variable or a moderator variable in regard to management process and outcomes (Tsui, Nifadkar, & Ou, 2007).

Cross-cultural management researchers have argued that societal culture can shape organizations and, more specifically, their management practices (Hofstede, 2001); it can also explain differences in management practices between countries. For instance, the cultural value of egalitarianism would not allow for a large disparity in terms of remuneration (Schuler & Rogovsky, 1998); instead, it would support and accept a small pay gap based on a seniority system. Meanwhile, a non-egalitarian culture would embrace a large disparity in remuneration, although too much disparity would cause a backlash from ordinary people. National culture is multi-dimensional and its dimensions include power distance, uncertainty-avoidance, individualism versus collectivism, masculinity versus femininity, and long- versus short-term orientation (Hofstede, 2001). Thus, a certain dimension of cultural value is expected to be related to a certain management practice. As indicated earlier, an egalitarian cultural value might be related to the use of seniority-based wages, whereby a small-to-moderate disparity in wages is achieved. Meanwhile, a non-egalitarian cultural value might be related to the use of performance-based wages, whereby a large disparity in wages might take place.

I focus on high performance work practices in this research, among other management practices, because these practices are essential to conducting business both at home and abroad, and are expected to improve employee and team performance outcomes. These practices are expected to be effective across nations and might not be culture-bound. Although a universal effect of high performance work practices is expected, cross-cultural and international human resource management researchers have argued that even the use of those management practices, as well as other management practices, will be affected by culture (Brewster, 1999). High performance work practices are centered around team work, on- and off-the-job training programs, participatory decisions, improvement activities, motivational practices with participatory decisions, other non-monetary attractions, and other practices (Pfeffer, 1998). Most of these seem to reflect the values and practices of collectivism. This research setting is Vietnam, one of the most collectivist countries in the world (Hofstede, Hofstede, & Minkov, 2010). The

cultural aspects of Vietnam are expected to help support the development and implementation of high performance work practice. The following hypothesis concerns the relationship between cultural dimensions and high performance work practices, among other management practices.

Hypothesis 1: Collectivism is positively related to the use of high performance work practices.

The Indirect Effect of Culture on a Positive Work Climate

Strategic human resource management researchers have found that high performance work practices are related to productivity, quality, labor turnover rate, and even financial performance (Baron & Kreps, 1999; Huselid, 1995). Provided that management practices are related to employee and team outcomes, culture is expected to affect performance outcomes through management practices. This points to the likeliness of an effect of culture on those outcomes being mediated by management practices, and that an indirect effect of culture on workplace outcomes takes place. High performance work practices are expected to improve work engagement and employee attitudes (Dreher & Dougherty, 2002). These practices make work environments and workplace climates better and bring a positive work climate to the workplace. Thus, in this research, I define positive workplace climate as workplace outcomes that are caused by high performance work practices. The concept of a positive work climate entails employees' perceptions of their workplace environment as respectful, inclusive, engaged, secure, and positive (Härtel & Ashkanasy, 2011). A positive work climate is thus an agglomeration of individual employees' perceptions of being engaged, their well-being, and feeling positive at work. Provided that culture can be an antecedent to high performance work practices, culture is related to a positive work climate through those management practices; the effect of culture on positive work environment can be mediated by those practices. The following hypothesis encompasses the indirect effect of culture on positive work climate by way of high performance work practices.

Hypothesis 2: Collectivism has a positive indirect effect on positive work climate via the use of high performance work practices.

The Ability of Organizational Form to Moderate the Indirect Effect of Culture

Bloom, Genakos, Sadun, and Reenen (2012) found that multinational enterprises were better managed than domestic firms, wherever they were located and operated in the world. They argued that foreign multinationals seemed to be able "transport" their high performance work practices abroad, even under different and often difficult national circumstances. They also discovered an order in management scores through organizational forms: The average management scores were lowest for domestic non-exporters, next lowest for domestic non-multinational exporters, and highest for foreign multinationals. Similarly, Pudelko and Harzing (2007) contend that multinational enterprises are likely to adopt global and standardized best practices, but are not likely to localize their management practices. Multinational corporations are an agent diffusing best practices as they go global and stay competitive with high performance work practices. Among multinationals, wholly owned subsidiaries would be managed better than joint ventures between foreign and domestic companies. Multinationals are managed better than local companies, although they operate in a different society. A facet of

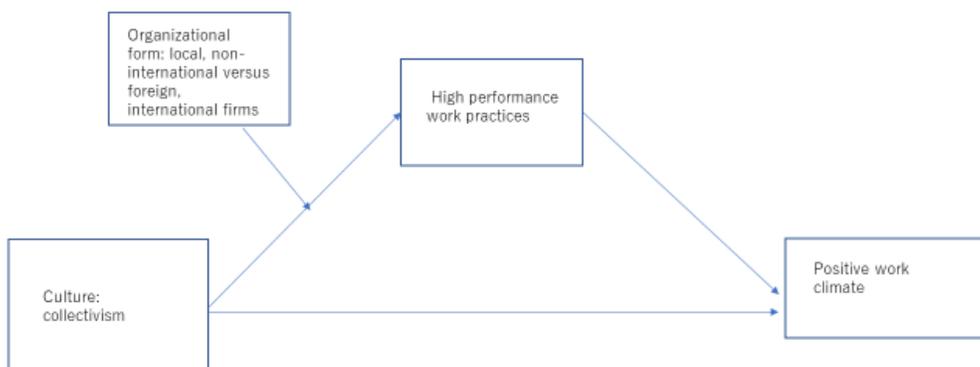
globalization is the globalization of management practices along with the globalization of the market, production, and so forth.

By considering multinationals as an agent capable of globalizing high performance work practices, international organizations are more likely to adopt high performance work policies at their workplaces than non-international companies. Foreign multinational corporations can transfer or transport high performance work practices to their factories and offices overseas. The effect of culture on management practices might vary depending on different forms of organization, ranging from local to multinational firms, or the degree to which those organizations go global. Given that culture has an indirect effect on positive work climate via management practices and that different forms of organization can moderate the cultural effect on management practices, the indirect effects of culture might be moderated by organizational forms: domestic, non-international versus foreign, international firms. This situation is described by the term moderated mediation (Edwards & Lambert, 2007). In this research setting of Vietnam, domestic and non-international firms are compared with foreign and international firms in regard to the indirect effect of culture on positive work climate via high performance work practices. Since multinational firms are more likely to adopt high performance work practices than local firms, the indirect effect is positive and stronger for multinational firms than for local firms. As such, the following hypothesis regarding moderated mediation is proposed.

Hypothesis 3: The indirect effect of collectivism on positive work climate via high performance work practices is moderated by organizational form. It is positive and stronger for multinational firms than for local firms.

Based on the arguments made so far, I present a conceptual model in Figure 1, in which the effect of culture on positive work climate, mediated by high performance work practices, is moderated by organizational form – that is, local, non-international versus foreign, international firms.

Figure 1 The conceptual model



METHODS

In order to test the hypotheses, I collected data and conducted statistical analyses. I made contact with domestic, non-international firms and foreign, international companies in Vietnam via my personal network; I then asked them to participate in my survey. I recognized that a non-random sampling method might cause response bias. Nevertheless, I took this approach, rather than a less personal approach of distributing questionnaires by mail, because I was concerned that, without direct contact and networking, busy company managers might ignore my request for information, or might not take time to respond fully to the questionnaire items. I collected data from the companies mentioned above both in the spring of 2018 and the summer of 2019. A total of 105 managers from 21 companies responded to the questionnaire survey on workplace practices and culture, and other workplace issues. Seven out of 105 respondents were non-Vietnamese (e.g., Korean and Japanese). I included a question asking about tenure, measured on a five-point scale: one equates to less than one year; two is more than one to less than three years; three is more than three and less than seven years; four is more than seven to less than 15 years; and five is more than 15 years. The median for the question was three; most of the respondents had worked for their current company for more than three and less than seven years. The industries of participating companies include information technology, manufacturing, real estate, consultancy, and so forth. It should be noted that the unit of analysis in this study was the workplace – more specifically, an assembly area, a press area, an office, a warehouse, a laboratory, or within a company.

I developed questionnaire items written in English. Next, I asked a Vietnamese graduate student enrolled in a master's course at the time this research was conducted to translate the English version of the questionnaire into Vietnamese. I prepared both English and Vietnamese versions of the questionnaire, but most of the respondents filled out the Vietnamese version. Managers responded to the questionnaire items for both the independent variables (culture), the mediator variables (management practices), and the dependent variables (positive work climate). My

method of data collection might have caused a statistical problem of common method variance (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003), since a manager was supposed to respond to both the independent and the dependent variables. Thus, a dyad of persons, but not a single person, might be recommended to respond to the questionnaire, with managers responding to dependent variables and non-managerial employees responding to independent variables or both independent and mediator variables. However, this approach could not be used without any such problems. For instance, a manager might be asked to respond to the same questionnaire items for multiple workers, taking too much time out of that leader's busy day; they could forget to evaluate outcomes for some of the employees. I compared the pros and cons of each of the different survey approaches in regard to whether or not I should collect data from a dyad of persons or a single person. I ultimately decided to ask each of the managers to respond to all of the questions, as I was more concerned about the use of a dyad of persons than the use of a single person.

Variables

Dependent variable. I developed eight items to capture ethical culture, as well as positive work climate, in the survey. This attempt to capture ethical culture is due to the way in which it might be an unknown cultural dimension. Ethical culture is thus used as a control variable within this research framework. In addition, since corruption is often reported in Vietnam, I intended to capture the cultural dimension, as well as collectivism, egalitarianism, and performance orientation. I performed an exploratory factor analysis (EFA) to identify positive work climate and ethical culture. As Table 1 shows, the EFA indicates that four items formed the first factor that might represent positive work climate. The second factor represents ethical work culture. The eigenvalue for the first factor is 2.85 and its proportion is 0.47. Internal consistency reliability among the four items is 0.86. I decided to use the average value of the four items constituting the first factor as positive work climate and the dependent variable. The eigenvalue for the second factor is 1.40 and its proportion is 0.23. Internal consistency reliability among the two items is 0.49, which is not high in terms of the cut-off level of 0.6 proposed by Nunnally and Bernstein (1994). Ethical culture was thus not used as a control variable in the statistical analysis.

Table 1 *EFA on workplace culture and climate*^a

Workplace culture and climate	Factor 1	Factor 2
1. People are expected to comply with the law and professional standards over and above other considerations.	0.35	0.66
2 People are expected to follow their own personal and moral beliefs when they have to make moral decisions.	0.01	0.90
3 People can speak up against wrongdoing that occurs in the workplace.	0.68	0.30
4 People feel included (i.e., welcomed) in your workplace.	0.83	0.11
5 People feel vibrant (i.e., full of energy) in your workplace.	0.87	0.09
6 People feel psychologically secure (i.e., colleagues are reliable and supportive) in your workplace.	0.89	0.17
Eigenvalue	2.85	1.40
Proportion	0.47	0.20

^aValues other than eigenvalues and proportions represent factor loadings.

Independent variable. Items from prior research were used to measure the cultural dimensions of collectivism, as well as egalitarianism and performance orientation (Hofstede, 2001; House, Hanges, Javidan, Dorfman, & Gupta, 2004). The first of the cultural dimensions was used as an independent variable, while the other two were used control variables. I measured cultural dimensions in terms of cultural practices, rather than cultural values, since cultural values are so abstract that it is not possible to distinguish cultural differences among organizations (cf., Hofstede, 2001). The appendix at the end of this article depicts the nine items regarding cultural dimensions of collectivism, egalitarianism, and performance orientation. Cultural practices refer to customary practices of life in general. Meanwhile, a set of management practices, used as a mediator, is more specific and relate to a way of getting things done at work. The results of the three-factor model were favorable ($\chi^2 = 32.25$, $df = 24$, $p < .12$, GFI = .93, RMSEA = .05). The internal consistency reliability was .75 for collectivism. The internal consistency reliability of the three items for egalitarianism was .15 and did not reach the cut-off level proposed by Nunnally and Bernstein (1994). The reliability of the three items for performance orientation was 0.58 and did not reach the threshold of .60 either. However, I used the average value of those items as a control variable, since this research is at an early stage. In addition, Cronbach's alpha is sensitive to the number of items in the scale, as the performance orientation scale was measured with only three items

Mediator variable. I developed and used four items related to skills-enhancement training, five items related to teamwork practices, five items related to improvement activities, and five items related to motivational practices as high performance work practices. Managerial employees assessed management practice items on a five-point Likert scale. I performed an EFA for all 12 variables to extract factors constituting high performance work practices. The results of the EFA were not satisfactory. I removed the items with cross loadings and performed another EFA. As a result, I identified the two factors shown in Table 2. The reliability for the first factor was 0.87, while that for the second factor was 0.44, below the cut-off level of 0.60. Thus, I

regarded the first factor as a set of high performance work practices and used the average values of the eight items regarding management practices.

Table 2 EFA on management practices ^a		
Workplace climate	Factor 1	Factor 2
1 People are trained to handle multiple work tasks.	0.12	0.83
2 People enhance their skills by attending training programs off the job (e.g., lectures, case studies, role playing, etc.).	0.47	0.64
3 People work closely with each other.	0.70	-0.18
4 People share responsibility for work outcomes (e.g., productivity or quality).	0.79	-0.04
5 People understand each other's tasks.	0.78	-0.11
6 People attempt to get their tasks done as efficiently as possible by using technology.	0.71	-0.21
7 People attempt to automate work processes that they believe do not need to be completed manually.	0.68	-0.09
8 People get promoted to higher positions as they upgrade their skill level.	0.72	0.09
9 People are taken care of by their boss.	0.72	-0.13
10 People find their job interesting.	0.71	-0.07
Eigenvalue	4.52	1.09
Proportion	0.45	0.10
^a Values other than eigenvalues and proportions represent factor loadings.		

Moderator variable. I used a dummy variable to capture each of the different forms of organization, ranging from a domestic company without factories and/or offices abroad to a foreign multinational company. In order to estimate a conditional indirect effect and to test the conditional indirect effect hypothesis, I created a continuous variable using those dummy variables, since researchers cannot estimate a conditional indirect effect with a dummy and nominal variable (Hayes & Preacher, 2010). I designated local companies as one, local companies with overseas operations as two, joint companies between local and foreign companies as three, and foreign multinational companies as four. The variable of organizational form, ranging from local to multinational firms, represents the extent to which a company is foreign and international.

Control variable. I expected some cultural dimensions to affect high performance work practices, ultimately leading to an improvement in positive work climate. Thus, I included cultural dimensions other than the independent variable of collectivism in the statistical models. Those cultural dimensions were egalitarianism, performance orientation, and ethical culture. The reliability for egalitarianism was 0.15 and that for ethical culture was 0.49. As mentioned earlier, although the reliability for performance orientation was 0.58 and was therefore not beyond the threshold of 0.6, it is used a control viable for the aforementioned reason; in addition, it was better than the other two cultural dimensions in terms of internal reliability.

Analyses

In order to test the hypotheses, I analyzed data by adopting the mediation model, the moderation model, and the conditional process model (Hayes, 2013; 2018). I performed regression analyses and estimated the mediated, moderated, and moderated-mediated effects by executing the SAS version (2.16.3) of PROCESS macro (Hayes, 2013). The mediation model was built to estimate the indirect effect, as follows.

$$Y = intercept_{Y^*} + cX + \beta_1 C + error_{Y^*} \quad (1.1)$$

$$M = intercept_M + aX + error_M + \beta_2 C + error_M \quad (1.2)$$

$$Y = intercept_Y + c'X + bM + error_Y + \beta_3 C + error_Y \quad (1.3)$$

The direct effect is c' ; the indirect effect is $a*b$; the total effect is $c = c' + a*b$. Y is the dependent variable of positive work climate. X is the cultural dimension of collectivism. M is high performance work practices and C is the control variable of performance orientation culture.

The conditional indirect effect was estimated by building the models below:

$$M = intercept_M + a_1X + a_2W + a_3XW + \beta_1 C + error_M \quad (2.1)$$

$$Y = intercept_Y + c'X + bM + \beta_2 C + error_Y \quad (2.2)$$

W is the moderator variable of organizational form. The conditional indirect effect is captured by the equation $(a_1 + a_3*W)b$.

RESULTS

Table 3 presents the descriptive statistics, including means, standard deviations, correlations, and reliabilities. Given that the sample size was not large, I considered regression coefficients at a probability level of less than .1 to be significant.

Variables	Mean	s.d.	1	2	3	4	5
1 Positive work climate	4.01	0.63	(.84)				
2 Collectivism	3.76	0.62	.67**	(.75)			
3 Performance orientation	3.86	0.60	.51**	.45**	(.58)		
4 High performance work practices	4.13	0.55	.59**	.59**	.46**	(.87)	
5 Organizational form	2.20	1.30	-.18 ⁺	-.16 ⁺	-.28**	-.31**	
^a Internal consistency reliability coefficients (Cronbach's α) appear on the diagonal.							
Observations: 104 to 105							
⁺ $p < .10$							
* $p < .05$							
** $p < .01$							

Hypothesis 1 predicts the positive effect of collectivism on high performance work practices. Table 4, Mode 1 shows a summary of the results of the cultural indirect effect on positive work climate. The effect (a) of the cultural dimension on management practices was positive and significant ($\beta = 0.52, p < .01$). After adding the control variable of performance orientation, the effect was still significant in the second model. Thus, these results support Hypothesis 1.

Hypothesis 2 predicts the indirect effect of the cultural dimension of collectivism on the dependent variable of positive work climate through high performance work practices. I deduced the indirect effect ($\beta = 0.17$), by multiplying the effect ($\beta = 0.52$) of culture on the mediator variable (high performance work practices) by the effect ($\beta = 0.33$) of the mediator on the dependent variable (positive work climate). The bootstrap estimates of the indirect effect within a 95% confidence interval did not straddle the value of zero in the first model. After adding the control variable of performance orientation, the bootstrap estimates of the indirect effect within a 95% confidence interval still did not straddle the value of zero in the second model, depicted in Table 4. Thus, these results support Hypothesis 2.

Table 4 Summary of indirect effects^{a,b,c}

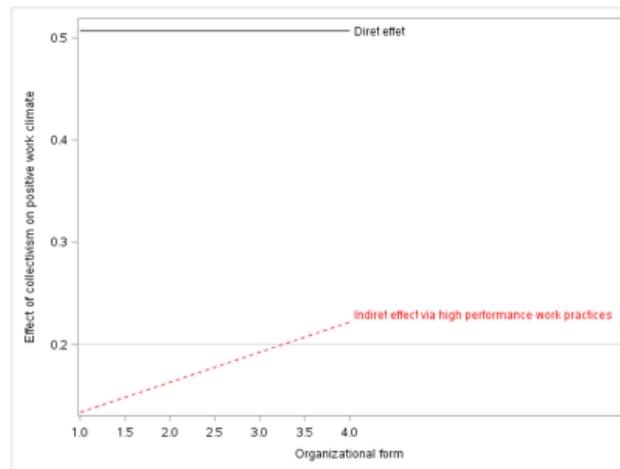
Model	The total effect (c) of the independent variable on the dependent variable	The direct effect (c') of the independent variable on the dependent variable	The effect (a) of the independent variable on the mediator	The effect (b) of the mediator on the dependent variable	The indirect effect of the independent variable on the dependent variable (a*b)	95% of bootstrap estimate
Model1: independent variable (collectivism) alone is included into the model.	0.68**	0.50**	0.52**	0.33**	0.17	0.0702 to 0.3205
Model2: independent variable (collectivism) and control variable (performance orientation) are included into the model.	0.55**	0.44**	0.42**	0.26*	0.11	0.0255 to 0.2330
^a Dependent variable: positive work climate						
^b Mediator variable: high performance work practices						
^c The total effect : c=c'+a*b						
Observations: 103						
+ p < .10						
* p < .05						
** p < .01						

Hypothesis 3 predicts the moderated mediation of collectivist culture by organizational form. Table 5 shows the summary results in regard to the moderated indirect effect of culture on positive work climate via high performance work practices. The bootstrap estimates of the indirect effect within a 95% confidence interval did not straddle the value of zero across different organizational forms in the first model, as depicted in Table 5. Figure 2 depicts the way in which the indirect effect varies depending on different organizational forms, along with the direct effect of collectivism on positive work climate, in order to understand the moderated indirect effect of culture. After adding the control variable of performance orientation, the bootstrap estimates of the indirect effect within a 95% confidence interval still did not straddle the value of zero across different organizational forms in the second model, as depicted in Table 5. Thus, these results support Hypothesis 3.

Table 5 Summary of conditional indirect effects^{a,b,c}

Model	The effect (a ₁) of the independent variable on the mediator	The interactive effect (a ₂) between the independent variable and the moderator on the mediator	The direct effect (c') of the independent variable on the dependent variable	The effect (b) of the mediator on the dependent variable	The level (W) of the moderator	The conditional indirect effect of the independent variable on the dependent variable: (a ₁ +a ₂ *W)b	95% of bootstrap estimate
Model1: independent variable (collectivism) alone is included into the model.	0.31 ⁺	-0.42 ⁺	0.50**	0.33**	Local	0.133	0.046 to 0.285
					Multinational	0.221	0.083 to 0.401
Model2: independent variable (collectivism) and control variable (performance orientation) are included into the model.	0.20	0.10 ⁺	0.44**	0.26 ⁺	Local	0.081	0.014 to 0.198
					Multinational	0.161	0.038 to 0.326
^a Dependent variable: positive work climate							
^b Mediator variable: high performance work practices							
^c Moderator variable (W): organizational form. Local=1; multinational=4							
Observations: 103							
+ p < .10							
* p < .05							
** p < .01							

Figure 2 visual presentation of the direct and the conditional indirect effect of collectivism on positive work climate via high performance work practices



DISCUSSION

Culture matters in international business. However, how it matters is under-researched. Researchers are called on to increase a nuanced understanding of the role played by culture in international business by paying more attention to the process by which culture affects employee and team outcomes in their international activities and the circumstances under which those cultural effects differ. Responding to this call for cross-cultural research, in the present study, I have sought the indirect effect of the cultural dimension on positive work climate via high performance work practices among other management practices and the conditional indirect effects of the cultural dimension on positive work climate by various forms of organizations – that is to say, local, non-international versus foreign, international firms. I have conducted statistical analyses based on evidence from those firms operating in Vietnam. Foreign multinationals were Japanese.

Statistical results have validated the effect of culture on management practices and the indirect effect of culture on positive work climate via those high performance work practices. The statistical results also proved the conditional indirect effect of culture on positive work climate by different forms of organization. The indirect effects are positive and stronger for multinational rather than for local firms, as predicted by the hypothesis. To summarize, high performance work practices can be developed in the collectivist society of Vietnam. A cultural effect of collectivism on management practices can lead to the improvement of positive work climate; the indirect effect of culture on positive work climate takes place through high performance work practices. The indirect effect is positive for multinationals and is stronger when the organization is international.

Contributions

This study contributes to cross-cultural research through exploring the process by which culture affects work climate as a work outcome. Although researchers recognize the significance of culture in international business settings, the ways in which it matters are under-researched. Thus, researchers are called on to figure out the mechanism by which culture affects employee and team outcomes, so that management researchers and practitioners can better understand the role played by culture in international business. High performance work practices can mediate the relationship between culture and positive work climate; culture has an indirect effect on positive work climate. In addition, this research shows that the indirect effect can be moderated by organizational form.

Second, this research contributes to cross-cultural studies through the way in which it directly measures culture, rather than by using a dummy or proxy variable of culture. Although Hofstede (2001) and House et al. (2004) tried to measure culture directly and to excavate cultural dimensions, other cross-cultural studies have used cultural scores from two seminal studies on cross-culture, or a dummy or proxy variable of culture, such as nations (Kirkman, Lowe, & Gibson, 2017). This study, however, measures culture directly and independently extricates cultural dimensions. This research also empirically tests the hypotheses by designating collectivism as the independent variable and performance orientation as the control variable within the present framework.

Third, this study contributes to cross-cultural research through its survey conducted in Vietnam, which is still a developing, but promising, country. An increasing number of multinational firms have begun operating in Vietnam in recent years. However, research is lacking in regard to Vietnamese companies themselves, their management practices, and the impact of Vietnamese culture on those management practices. This research entails a survey conducted in regard to the cultural and managerial aspects of organizations in the emerging nation of Vietnam.

Implications

This research uses data from Japanese multinationals in Vietnam and compares an indirect effect of culture on positive work climate via high performance work practices between those Japanese nationals and local, non-international firms. The research results provide some implications. First, they indicate that the indirect effect was stronger when the organizational form was more international. Japanese multinationals are managed better than local Vietnamese companies, as they make better use of high performance practices and enable local employees to become more engaged in work within a positive work environment. They might be expected to manage their overseas operations well and be competitive with those practices by their Japanese headquarter organizations.

Second, the results indicate that both local, non-international firms and foreign, international firms can enjoy high performance work practices within the culture of collectivism. Since Vietnam is a collectivist society, these practices are expected to be congruent with and effective in Vietnamese society. Domestic Vietnamese employees can learn about better

management practices from multinational companies and thereby gain the opportunity to become more competitive through those practices.

Third, this research may enable an understanding of why multinationals are likely to use high performance work practices. Previous research (e.g., Bloom et al., 2012; Pudelko & Harzing, 2007) has suggested that multinationals are more likely to adopt high performance work practices than non-multinationals, as their headquarters try to transfer those practices to their overseas units or subsidiaries. However, these extant studies have not discussed why multinationals use high performance work practices and are doing well. With \$8.6 billion worth of foreign direct investment (FDI) approvals in Vietnam in 2018, Japan is the largest investor in the country (*The Japan Time*, April 26, 2019). Over half of Japanese enterprises highly appreciate Vietnam's market scale and growth potential, stable political and social situation, and low labor costs. Since Vietnam is critical to Japanese business in Southeast Asia, Japanese multinationals are expected to be competitive and manage their overseas operations well in the nation by their headquarter organizations. They might need to make better use of those practices to be competitive and effective in the emerging economy of Vietnam.

Limitations and Future Directions

There are several limitations in this research. Since data were collected only from Vietnam and not from other nations, it was not possible to make cultural or international comparisons among multiple countries; this study might be characterized as part of the existing field of "domestic cross-cultural studies" (Tsui, Nifadkar, & Ou, 2007). It was not possible to distinguish national culture from organizational culture, since participating companies operated only in Vietnam within the present research framework. Second, it was impossible to excavate cultural dimensions other than collectivism and performance orientation, although I tried to do so. I elicited egalitarianism and ethical culture, as well as those two cultural dimensions of collectivism and performance orientation. However, evidence could not be provided in terms of the items having relatively high internal consistency reliability in regard to egalitarianism and ethical culture. These cultural dimensions could affect management practices and work climate as much as collectivism and egalitarianism.

Overcoming these limitations is a possible direction for future research. A further future research direction would be to collect data from multiple countries and to make international comparisons in regard to culture between different nations, in order to estimate cultural effects on management practices and work climate between those nations. In addition, it is necessary to identify more cultural dimensions and assess their impact on management practices, work climate, and other management activities and outcomes.

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Appendix

Questionnaire items

Culture

All the items on culture below were evaluated on a five-point Likert scale ranging from 1 “strongly disagree” to 5 “strongly agree”.

1. People tend to make decisions in the best interest of the group, rather than for themselves.
2. People always maintain harmony while avoiding direct confrontation.
3. People tend to show concern for their colleagues.
4. Everyone is allowed to take part in decisions, regardless of their job titles.
5. Everyone, regardless of their job titles, is treated equally in the workplace, without the use of uniforms by workers only, the use of separate offices for different employees, access restrictions to the cafeteria for some employees, and other status differences.
6. People are expected to obey their boss without question.
7. People strive for continuous improved performance.
8. People try to work on new things.
9. People work beyond the range of tasks specified by their job description, unless their acts violate the rules.

Reinventing Japanese MNEs to Regain Global Competitiveness

“Supportive” role of the developed MNEs as a transformational approach

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Abstract:

It has been widely discussed that many Japanese multinational enterprises (“J-MNEs”) may have lost their competitiveness in the global business and argued on their factors and causes over the past three decades, but in vain. This might be a mis-match of the feasible global strategies set by them. Therefore, this paper aims to address on the research questions: “Why did many J-MNEs lose the competitiveness in the global arena and how could they regain the competitiveness?”

With the concerns on the possible missing of the cogent theories for J-MNEs, this paper is intended as an initial charting of a terra incognita, the first foray that could pave the way for more exploration to a new theory-building. Multiple success cases are extracted among the strategic alliances for a qualitative analysis. My analysis suggests that these cases have idiosyncratic interdependent relations which are different from the traditional MNEs theory and J-MNEs failed to develop the internationally-minded cadre of executives in-house, which eventually has led to the initial proposition of the new “Supportive” MNEs in alliance with emerging entrepreneurial actors as a mutation from a traditionally active MNE model which would enable to deduce the alternative MNE theory in what have appeared to be disparate concepts.

Key words: Business mandate, Entrepreneurial actors, Interdependent relation, Multinational enterprises, Subsidiary initiative, Supportive MNEs

1. Introduction:

For over the past three decades since the burst of the bubble economies in the late 1980s, there exists a harsh criticism that many J-MNEs have lost the global competitiveness. A prominent example is the semiconductor industry where the market share of Japanese firms dropped to a meager 7 per cent in 2017 from the highest share of 49 per cent, then the world No.1. (IC Insights) Various causes were widely drawn attention as negative factors among other things such as; 1) “Organizational deadweight” (Numagami, 2007) that helped fail to extricate themselves from the experience of the past success, 2) Management incompatibility that top management tends not to make quick and proper decision-making because of their inclination for more risk-evasive attitude than before, 3) “Build-it-yourself” principle and the contempt for a global marketing strategy that are still prevailing in many Japanese MNEs that are unable to switch to more open and horizontal networking arrangement, 4) Depletion of strategic creativity by the top management that helped fail to realize the fundamental changes in the global business rules and systems. (Fujimoto, 2017), and 5) Tendency of many incumbents who are designed around the current ways of doing things and so proficient at them makes them to be blind to or unable to absorb the new approaches and get trapped in the status quo- they suffer the “curse of knowledge”. (Henderson, 1993; 2006)

In addition, a new wave of MNEs in the emerging economies (“E-MNEs”) have grown up as major actors since around 2000 and helped accelerate the change in a global business landscape. They include Baidu, Alibaba and Tencent from China IT industry, AB Inbev, the largest brewer and JBS, the largest meat packer from Brazil, Grupo Bimbo, the largest bakery and Cemex, a large cement maker from Mexico, and Thai Union Group, the largest seafood canner from Thailand.

Turning our attention to the present state of business affairs of the J-MNEs, we have to ask ourselves whether they possess the appropriate firm-specific advantages (“FSAs”) to regain the global competitiveness, and also whether the traditional MNEs theory is applicable to find its practical solution to many J-MNEs. With this as my research motivation, this paper aims to address on the research questions: “Why did many J-MNEs lose the competitiveness in the global arena and how could they regain the competitiveness?”

So, the first step of this research is to find exploratory cases where trailing J-MNEs still have conquered in the tougher global competition, and then to analyze these multiple cases to identify the causes and factors of the practicality as a basis to build the alternative business model, and lastly to discuss the useful theoretical framework which could eventually lead to establish an additional branch of the MNEs theory. The context of this research is based on four success cases in the international business alliance of MNEs including Japanese MNEs. They include three alliance cases between developed MNEs and the entrepreneurial actors in the emerging

economies, and one intra-company case of group of a J-MNE.

The following Section 2 addresses the theoretical background paper of MNEs and research gaps. Section 3 describes the research methodology including data sources and the approach adopted. Section 4 explores out a detailed analysis of four cases in point mainly focusing on the alliance strategies of each case under the MNEs theory. Section 5 explores the discussion based on the result of analysis of four cases, and presents the success factors and builds the possible framework of another MNEs strategy. The final Section concludes the main findings in the analysis and the implication for a future research work for a cogent theory-building.

2. Literature review:

MNEs are conceptualized as consisting of geographically dispersed subsidiary units that control differentiated stocks of resources (e.g., Bartlett and Ghoshal, 1989; Nohria and Ghoshal, 1994). Subsidiaries are legally owned by and report to corporate headquarters. But owing to the considerable size of many MNEs, and the bounded rationality of management teams (March and Simon, 1958), we cannot assume that the corporate headquarters are fully in control of all decisions across the MNEs. (Ambos, Andersson and Birkinshaw 2010)

As a recent typology of the management organization of the developed MNEs in the U.S. and Europe (“D-MNEs”), Bartlett and Ghoshal (2002) codified the organizational models of the MNEs based on the multinational strategy, the international strategy and the multi-domestic strategy, and then proposed a new model of “the transnational strategy” which takes advantages of the previous three models under the two axes representing pressures of the local responsiveness and global integration in the matrix. This codifying matrix is still discussed on the relation between headquarters and subsidiaries where the headquarters play the controlling role for any major decision-making. But there is some situation where the final decision of a market entry cannot necessarily rely on their own possessing FSAs, then these MNEs fill the gap through the alliance with other foreign firms which possess the complementary management resources. In this respect, international business (“IB”) always pays particular attention to the management of interdependent relation between actors. (Hennart, 2009) Managing interdependent relations refers to accessing, recombining, and orchestrating the productive usage of various sets of business resources that are dispersed geographically. Such resources involve knowhow, raw materials and components, sales/marketing, distribution services, financial capital, and etc. Rugman and Verbeke (2001) have reckoned that “subsidiary initiatives” may lead to the development of the location-bound (“LB”) FSAs (a resource-based expression of host country national responsiveness) but these can be transformed into non-location bound (“NLB”) FSAs, namely when being augmented with best practice attributes inside the MNEs network (e.g., as a result of productivity increases and added differentiation).

Indeed, in synthesizing the literature on subsidiary initiatives, Rugman and Verbeke (2001) find ten generic types of capability development processes inside MNEs, of which Birkinshaw (1997) had identified those whereby subsidiary initiatives are critical. Such entrepreneurial undertakings that occur outside the home country of the MNEs and allow the subsidiary to tap into new opportunities have been brought together under the label of subsidiary initiatives. (Birkinshaw, 1997; Rugman and Verbeke, 2001).

The final decision on entry mode choice does not only depend on the MNE's FSAs. It also very much depends on the complementary resources needed by the MNEs from foreign actors to make the exploitation of its own FSAs feasible and potentially profitable (which explains why IB is always concerned with managing interdependencies). (Hennart, 2009)

Rugman, Verbeke and Nguyen (2011) recognize that while the relevant unit of analysis for most IB theory is still the MNEs as a whole, because most key strategic decisions are taken at that level, there is often a problem in translating and applying firm-level theory to the subsidiary unit. The subsidiary becomes the key building block of the MNE, which is viewed as a differentiated network rather than a monolithic hierarchy. In other words, no serious MNE network analysis can be conducted without understanding each subsidiary's idiosyncratic resource base, strategy, assigned role inside the MNE, and linkages with other subsidiaries. But author finds a new research gap that there have few analyzes the aftermath and new evolution of uncertainty caused in the course of the development of the subsidiary initiative.

It's a recent phenomenon in the past two decades that many new types of E-MNEs came out of the emerging economies such as Asia and South/Latin America, as described above. These winning group of E-MNEs suggests us the possibility of a different management model of MNEs in a rapidly changing global business arena. Gotoh (2015) presents five critical characteristics of the success factors of E-MNEs : 1) They have abandoned the inward-looking attitude and rather been flexible to change themselves to rapidly adapt the unexpected changes in the market, 2) They take a close look at the reality and have no excess stereotypical view believing that they could enhance their competitiveness by transforming themselves rather than maintaining the status quo, 3) They are not hesitant to utilize complementary resources, expertise and network available outside their boundary in order to solve the business problem through M&As and alliances, 4) They don't care much about the failures because they are confident to comfortably convert it to their strength as antecedent in doing business and 5) They make their own decision on the businesses and encourage employees to challenge as the on-site experiment. These five characteristics are not mutually exclusive each other and overlapped in the case of E-MNEs. They often times are witnessed in the younger firms with full of entrepreneurialism. It's good lessons to learn for many long-established J-MNEs whose organization have senesced and ossified due to the historical legend that E-MNEs continue to

rejuvenate themselves in creating the mechanism for a change.

In the 1960's and 1970's, most Japanese firms expanded their outsourcing activities through sizeable overseas investment to those countries with cheaper labor for their manufacturing process. Then in 1980's, Japanese firms expanded the marketing capability mainly in the Southeast Asian economies to capture the emerging economic boom, and some established subsidiaries to explore M&As there. But due to the lack of FSAs necessary for overseas business and in-house pool of the eligible executives, many Japanese firms continued the business operation in the same way in the Southeast Asia area that they used to operate in the past. (Collinson and Rugman, 2008) Japanese firms tend to choose joint venture type than the sole entry when entering in the high-risk markets. (Chen and Hennart, 2008) But the probability of the failure of joint ventures is quite high at around 50% due to an emergence of conflict. (Koza and Lewin, 2000) But In the world's largest 500 firms, there are 64 J-MNEs with data on regional sales, but only three firms of them - Sony, Canon and Mazda- operate globally; whereas 57 of them recorded average over 80 per cent of their sales and foreign assets in their home region. (Collinson and Rugman, 2008) Why is there such a strong intra-regional dimension to their activities? Using empirical data and a new framework for analyzing both downstream (sales) assets and upstream (production) assets it analyzes why most large J-MNEs appear to have FSAs that are based in their home region. A structural contingency approach is applied to two case studies to explain how home-region-bound FSAs constrained the ability of J-MNEs to implement internationalization strategies. (Rugman and Verbeke, 2004) Extant research so far in the IB and MNEs theories failed to present the feasible management models suitable to many J-MNEs which have lost the competitiveness in the global business.

To address the question of "how has the end of the 'bubble economy' and a 20-year recession in Japan affected the trajectories of research on J-MNEs?", Endo, Delbridge and Morris (2015) reviews publication patterns in peer-reviewed academic journal articles on Japanese firms and management, illustrating the academic discourse surrounding Japanese firms over four decades before then identifying research trajectories and future research opportunities and gaps in our knowledge and understanding. As the amount of Japanese FDI to East Asian countries has been very significant, it would be fruitful to examine the role and orientation of Japanese firms in association with other firms and economies in East Asia. Though they identify the changes and developments of J-MNEs' in corporate strategy, they found that major J-MNEs comply and revise with the strategic point of view of the D-MNEs in European and U.S., not the new paradigm of corporate trajectory.

In addition, this paper discusses about two cases of J-MNEs both in the inter-company and intra-company together with additional lenses relevant to each case such as Resource Dependence Perspectives (Pfeffer and Salancik, 1978; 2003) for the first case, the theory of

Institutional Voids (Khanna and Palepu, 2005) for the third case, and the analytical methodologies in the research papers on a comparative study of the United States and Japan in an aerospace industry (McGuire, 2007) and Leap-flogging strategy by late-comers in the development project of new advanced technologies (Lee, 2005) for the fourth case due to the nature of the different set of business. As a closely related to the cases of J-MNEs above, an alliance case between the U.S. MNE with a Singaporean entrepreneurial actor is also discussed because it has a good implication to J-MNEs.

3. Research methodology:

Objective of this research is the first step to build a new framework in the MNEs theory cogent for the trailing J-MNEs which enables them to regain their global business competitiveness. This research is designated to conduct a qualitative analysis of four comparative cases. Qualitative case study methodology provides tools for researchers to study complex phenomena within their contexts. When the approach is applied correctly, it becomes a valuable method for a research to develop theory. (Baxter and Jack, 2008) According to Yin (2003), a case study design should be considered when: 1) the focus of the study is to answer “how” and “why” questions; 2) you cannot manipulate the behavior of those involved in the study; 3) you want to cover contextual conditions because you believe they are relevant to the phenomenon under study; or 4) the boundaries are not clear between the phenomenon and context. In addition, the case study is a research strategy which focuses on understanding of the dynamics presents within single settings. Moreover, case studies can employ an embedded design, that is, multiple levels of analysis within a single study. (Yin, 1984) Selection of relevant cases is an important aspect of the theory building from case studies. As Pettigrew (1988) noted, given the limited number of cases which can usually be studied, it makes sense to choose cases such as extreme situations and polar types in which the process of interest is "transparently observable." Thus, the goal of theoretical sampling is to choose cases which are likely to replicate or extend the emergent theory. Theory building in the case study is a bottom up approach such that the specifics of data produce the generalizations of theory. The risks are that the theory describes a very idiosyncratic phenomenon or that the theorist is unable to raise the level of generality of the theory. It's very critical to select appropriate cases because of the exercise of the comparative analysis of multiple of similar cases for the new theory-building based on that strategy. (Eisenhardt, 1989)

Purposive sampling was intentionally chosen for this research to ensure that the selected samples is representative of key actors in a global business. Data was collected from the primary source including semi-structured interviews with the corporate executives of Nippon Paint, Wuthelam, Wilmar, Chiangmai Frozen Foods and Itochu and secondary data from the press

release, website and financial reports of the firms under review, book of 100-year History of Nippon Paint, news media including the Nihon Keizai Shimbun, international journals including Forbes Asia, periodicals, securities analysts reports, industry publication, etc.

4. Case study:

Analysis is made in these four alliance cases between the D-MNEs and the entrepreneurial actors in the global business in a different way that traditional D-MNEs usually do.

(1) The first case is the international joint ventures (“IJVs”) between Nippon Paint Holdings Co., Ltd. (“NP”), the largest paint company in Japan and Wuthelam Holdings Pte. Ltd. (“W”), an entrepreneurial company in Singapore.

IJVs are one of major schemes for D-MNEs to enter in the foreign markets. NP and W agreed to establish the first IJV in Singapore in 1962 to develop a painting business and later have successfully expanded in 16 countries throughout Asia/China regions under a good interdependent and complementary relations. In the early days, NP acted as a parent providing several FSAs including manufacturing technology, quality control, R&D and credit enhancement while W acted as a subsidiary responsible for local management, local production and sales/marketing though W owns 60 per cent of all IJVs as consolidated subsidiaries. During a successful business expansion in the Southeast Asia market from 1962 to 1990, W steadily had acquired the necessary business resources from NP through a knowledge transfer in order to fill the gaps in knowhow and technology while building up its own marketing expertise through a dominant strategy suitable for a painting business. Until around 1990, W had evolved to become self-sufficient so that it was possible to conduct a business expansion without much support from NP except R&D technology. Late 1980’s, W conducted in-depth investigation through its overseas Chinese network as it carefully looked for a market entry opportunity in China. Then came an information from the reliable source that the Chinese government decided to resuscitate the ailing Reform and Opening Policy after the Tiananmen Square incident in 1989 and the South Tour Talk declared by Mr. Deng Xiaoping in 1992. With the favorable information, W quickly made a bold decision to enter in the China market in 1990 by itself without NP because NP hesitated a market entry due to a high country-risk and an absence of qualified executives to be dispatched. But NP eventually agreed to set up a China IJV later in 1992. China achieved a tremendous economic growth since then, which helped urban population increase by 559 million to 731 million by 2013 (Yao, Luo and Wang, 2014). Taking advantage of this huge housing boom, China IJV aggressively assailed to seek for a broader brand awareness of its “Li-Bang” brand among the potential retail customers by spending an abundant amount of money earned from its Southeast Asia business to TV commercials. “Li-Bang” brand of China IJV was successful to acquire the No.1 market shares at about 10 per cent in the overall paint market in

China and also particularly stronger market shares at 25 per cent in 2013, 21 per cent in 2015, 21 per cent in 2017 and 19 per cent in 2018 among the top 500 building company customers. Thanks to a rapid business expansion of the IJVs in Southeast Asia and China, total sales of all IJVs posted 58% of NP's total sales in the fiscal 2018 results. As was widely shared by many stakeholders including NP executives, this owed mostly to W's excellent business leadership, the managerial skills and a right strategy.

In 2013 when 50 years have passed after the first IJV was established, an uncertainty in the interdependent relation emerged. W made it public that it had a gripe at a lower strategic priority of Asia/China business in the NP strategy and an undervalued stock price of NP shares because all IJVs were affiliated subsidiaries, not consolidated subsidiaries of NP. In order to reduce an uncertainty, NP immediately discussed with W and reached a resolution in 2014 ("the 2014 Resolution") whereby NP bought additional 11 per cent shares for 133.0 billion yen from W to own 51 per cent of all IJVs so as to consolidate all IJVs business. As a result of a consolidation of all IJVs, NP rose to the global No.4 painting company from No.7 in terms of net sales, and its market capitalization in the stock market jumped by 2.7 times to 1.5 trillion yen (about US\$ 15 billion) at the end of 2014. In return, W was allowed to buy additional shares to own about 40 per cent of NP common stocks for 102.3 billion yen to become the largest and the controlling shareholder of NP and also to get one board director seat. This internalization of W into NP made to create a new company ("NP-1") where W has the power to affect a direct influence over major decision-making of NP-1.

In December 2017, Japanese executives of NP-1 attempted an acquisition of a US competitor for US\$ 10 billion but later withdrew as W strongly opposed it claiming that the possible disruption of the shareholders' value (net income per share). Disappointed with this incidence, W was quick to realize a need to overhaul a governance system of NP-1. W made an immediate motion to implement a restructuring of the composition of the board of Directors of NP-1 so that more than half of the board members is filled with Independent Directors to clearly divide the oversight function of the Board of Directors from execution function by the corporate executive officers. This created a new entity ("NP-2") who can adequately compete for an intensified global business operation.

RDP theory discusses about actors who control business resources and other actors who need these resources which result in a power shift caused by varying interdependent relation. In general, an organization tends to be influenced by other organization who controls the resources it requires. The more an organization is dependent on other, the more likely the power change happens leading eventually to a power concentration over others. This sequence of a power change was witnessed from the start of the China IJV. W exerted its power on all strategic decision-making since its China market entry because it dominated most business resources

necessary for China business and therefore did not need to rely on NP except its R&D expertise. When W addressed its complaint in public in 2013 to NP, NP first tried to reduce the surfaced uncertainty and reached the 2014 Resolution with W through a cooperation strategy in an inter-organizational mediation mechanism of RDP theory because W was not easily substitutable for NP and vice versa. But the 2014 Resolution created NP-1 whereby W clearly captured and established an implicit power in NP-1. Then, a more powerful actor, W tends to use its power superiority to its advantage in such way that it tries to extend its power over and above its contribution to resource control. Its power is reinforced and cannot be easily reduced by changes in resource demands of the organization. In the face of a risky attempt in 3 years later by Japanese executives of NP-1 to acquire a U.S. competitor, W strongly opposed it and then thought an immediate need to reform NP-1 board of Directors so to further consolidate its power under a new governance system. Majority of board capacity was filled with Independent Directors and board responsibility was separated from that of executive officers. This reform ended up as a creation of a new NP-2 where an unusual case of “A Tail Wags the Dog” took place. This move complies with a self-reliance strategy in an inter-organization mediation mechanism so that W has enhanced its status as un-replaceable by NP any more.

Prior to the start of IJV, both partners have their own constraints; NP pursues to support the global expansion of Japanese auto OEMs as the first priority leaving the painting business in the construction and housing business wholly to W. W sticks to remain private (non-listed) company as a tradition of the overseas-Chinese families.

At the start of IJVs, NP acted as a parent with many FSAs while W acted as a subsidiary. But for about 30 years in the Southeast Asia business after a start of IJVs, W was wise enough to steadily acquire critical business resources including critical production technology, quality control knowhow through a knowledge transfer from NP in addition to further sharpening its own dominant strategy. As a consequence, W has long been at the helm of managing all IJVs effectively for over 20 years since 1990 when W was fully equipped with almost all business resources to independently manage IJVs while NP failed to develop its own capable cradle of in-house executives which can manage overseas business development. As most stakeholders applauded that the success in Southeast Asian business owes wholly to W, it's obvious that the success of China business owes wholly to W with its excellent business management, which led to the formation of NP-1. It's apparent that NP failed to resist a role of a “Supportive” actor from that of a parent in the course of the business expansion while W exerted a strong leadership role. Despite the change of the roles in the business, it is regarded as the best interest for both NP and W to share such interdependent relation to jointly create the corporate value as a going concern in a long-run.

(2) The second is an alliance case in the China market between Archer Daniels Midland

Company (“ADM”), a D-MNE and one of world’s big four commodity traders and Wilmar International (“Wilmar”) which was founded in 1991 in Singapore by Kuok family of an overseas Chinese group to commence a palm oil trading business and is now Asia’s leading agribusiness group.

ADM first started the edible oil refining & oilseed crushing business in China in late 1980’s and then in 1994 switched to a joint venture (“Wilmar China”) with Wilmar who was engaged in the larger plantation business of palm trees in Malaysia in order to further expand consumer market of edible oils products. Then in 2007 ADM decided to withdraw wholly from its joint venture of Wilmar China by delegating the business mandate to Wilmar China because it understood that Wilmar China was well qualified for the China business expansion with the necessary business resources. In return, ADM paid its sale proceeds from a JV withdrawal to acquire 16% of equity stocks of Wilmar itself and gained one post of the board directorship as the largest shareholder. ADM recently increased its equity holding to 25 per cent to solidify a strategic relation with Wilmar. This process indicates an important role of developed MNE as a “Supportive” actor in the business expansion in China while Wilmar acts as leading role. Wilmar China is now one of the largest agribusiness and food processing companies in China. Its business is now expanded to include the processing and sales of kitchen food (edible oil, rice etc.), feed ingredients and oleochemicals in China. “Arawana”, its flagship brand in Asia, has been by far the leading edible oil market since the 1990s and has the largest market share in the packaged consumer edible oil market using an aggressive marketing strategy in a rapidly expanding consumer market. Current Wilmar China operation contributes about 60 per cent of Wilmar's group profit after tax in 2018 with total revenues for 167 billion yuan (US\$ 23.7 billion) and a net profit of 5.52 billion yuan (US\$ 784 million). Wilmar China now operates 62 edible oil refining plants, and 200 sales offices stuffed with 1,500 salespersons dealing with 4,000 sales representatives throughout China.

In this case, ADM as a D-MNE, finally decided to devote itself to a supporting role as an alliance partner for Wilmar when it realized that Wilmar possesses much superior FDAs such as human network, entrepreneurialism, marketing & sales expertise suitable to expand China business. As the largest shareholder with one board director post in Wilmar, ADM enjoys a good return from the whole operation through its equity investment as a supportive alliance partner rather than an active/leading one.

(3) The third is the case of an establishment of the first frozen foods business in Thailand arranged between an emerging entrepreneur and Itochu, a J-MNE.

This analyzes an inter-border alliance case, not a cross-border alliance case which presents a solution to fill the defects caused by the institutional voids (Khanna & Palepu, 2005) which are still thriving in many emerging and developing economies and are tough obstacles to the

business development for many D-MNEs.

Thai government formulated the 6th National Economic Social Development Plan (1987-1991) to rejuvenate the farming areas in the northern Thailand. At this same time in 1980's, Japanese trading firms looked for the alternative location to source the vegetable produce other than China because of the serious contamination problems of too much overdose of agrichemicals to cultivate agriproducts like vegetables. One businessperson in Thailand who had been acquainted in his business of fresh vegetables products as one of traders was contacted by Itochu for his intention to start up a vegetable production and processing of frozen vegetable for packaged frozen foods from scratch. Specific business obstacles in Thailand stemmed from the institutional voids include those absences of: legal system, regulation for the food safety, research institutions for the quality control and vegetable cultivation, technology development centers of factory production management, domestic supply chain system for agrichemicals, seeds and machine parts, domestic logistics system, supply of experienced production engineers and a reliable banking system which provides financing support to a large number of small farmers residing sparsely in the norther areas. After a thorough feasibility study of some possible production scheme through his friends, business associates, banks, leaders of small farmers and research institutes in his human and social capitals, he felt confident in creating a new business model of a frozen vegetable production system with an improved scheme of then-existed contract farming system for large number of small farmers. And he also secured the production technology through a technology assistance agreement of production and quality control with Itochu. He had started the first frozen foods production factory with a stable procurement arrangement of vegetables through an improved contract farming system under legally binding contract with 200 village leaders who manage about 200 small farmers each in the northern Thailand. Then in 1988, Chiangmai Frozen Foods PCL. ("CFF") was formally founded as the first such company which produces the frozen foods products in Thailand to be exported initially to Japan market.

At the same time, Itochu cautiously examined the likely business risks in Thailand as there were neither a consumer market nor producers of frozen foods goods in Thailand in late 1980s. These business risks are deeply associated with the institutional voids, as mentioned above. CFF faced the reverse institutional voids including the high level of product quality standard and the trade regulation set by the Japan market which are much higher than in Thailand. In order to solve these obstacles between Thailand and Japan, Itochu finally decided not to directly enter in the Thai market by themselves but agreed to provide necessary knowhows and technology of factory operation management, quality control skill-set and indirect credit support to CFF. This arrangement of both companies means that both companies insulate themselves from each indigenous risk in the host countries, which means the alliance arrangement on an

inter-border basis, not crossing the border between Thailand and Japan.

At the same time, Itochu agreed with CFF to make an annual sales/supply contract every year so as to be able to produce contracted amount of packaged frozen goods on a built-to-order basis to stably supply goods to Japan for about 5.0 billion yen (about US\$ 50 million) in recent years. CFF was successful to refine the forecasting skills and training program for small farmers for the stable vegetable production which are usually harvested three times a year. CFF has not wasted its time to successfully develop many other Japanese customers than Itochu to lower its dependence on Itochu which is also the result of the development of the subsidiary initiative. Accordingly in 2009, Itochu sold down whole holding of CFF equity stake as the business merit of the monopolistic status faded away.

In this case, Itochu decided to minimize the actual business risk as a minority partner while arranging an overseas partner to take a risk of setting up of a new business overseas. This is exactly what Japanese general trading companies including Itochu have been doing for a long time when they found the situation in a country too uncertain to get involved themselves. This case also reckons Itochu, a J-MNE, has intentionally been playing a “Supportive” role to CFF, an entrepreneurial actor in Thailand in building a new venture of frozen foods production in a long term.

(4) The fourth is an intra-company case of Mitsubishi Heavy Industries Ltd. (“MHI”) and its subsidiary, Mitsubishi Aircraft Corporation (“MAC”) in the development project of a new regional aircraft (formerly “MRJ”, now “Space Jet”).

Analytical lenses for this specific case of an aircraft development project are based on two research papers regarding a comparative study of the United States and Japan in the aerospace industry (McGuire, 2007) and leap-flogging strategy by late-comers in the development project of advanced technologies. (Lee, 2005)

McGuire (2007) argues that for all its success in other high-technology sectors, Japan has largely failed to develop a strong aerospace sector. Its leading firms do not market finished aircraft and, in a stark contrast to other sectors, the aerospace industry features a trade deficit with the United States. Japanese firms seem trapped as suppliers of components and sub-assemblies, mainly for the US industry. The general explanation for this state of affairs is that the Japanese industry has been effectively ‘captured’ by the United States; Boeing in particular dominates the sector and has effectively locked the Japanese firms into a relationship where moving up the value chain is difficult. This relationship may be changing. Japan's government has placed renewed emphasis on developing Japan's aerospace sector, while matters are evolving at the corporate level too, with Boeing's relations with Japan revealing a steadily increasing work share for the Japanese industry. Regarding the leap-frog strategy for late-commers, Perez (1988) observes that every country is a beginner in terms of the newly

emerging techno-economic paradigm, which implies the possibility of leapfrogging by late-comers like NIEs. The idea of leapfrogging is that some late-comers may be able to leap-frog older vintages of technology, bypass heavy investments in previous technology system and catching-up with advanced countries (Perez and Soete, 1988). The increasing tendency toward globalization and development of information technology makes the leapfrogging argument ever more plausible as analyzed for the case of digital TV in Lee, Lim and Song (2005). Latecomers need to go through the costly and time-consuming process of accumulating technological capabilities, raising sufficient capital investments, and acquiring sufficient social and organizational capabilities to be able to challenge existing structures (Lall, 1992; Nelson and Pack, 1999). At the same time, late entrants are arguably in an easier position than the leaders for they can apply existing and proven technologies at much lower costs than those that paid the price of developed them, or can leapfrog certain technologies or stages. But Lee (2005) strongly advises these late-comers to hire a partner who has a track-record of sufficient working experience, expertise and knowledge in the specific project as a project advisor based on his analysis of many relevant cases of the management of new development project.

MHI in 2008 officially launched a new project with a business pride that it held thorough expertise and technologies accumulated in the previous experience of several contracting work as Tier 1 assembler and supplier for many years in the development of several Boeing commercial aircrafts. Majority of the project team of MAC was initially consisted of MHI executives and engineers who had strong confidence on the “Build-it-yourself” principle which has often times been shared in many Japanese companies. (Hitotsubashi Business Review, 2018) This did not comply with a cautionary suggestion by McGuire (2007) to Japanese aircraft manufacturers and the proper catch-up strategy of the latecomers in the technology sectors by Lee (2005). In addition, it’s obvious that MHI also connoted the deficiency of the sufficient experience, expertise and knowhow in the critical filing procedures and negotiation skill to timely obtain the type certificate (“TC”) for Space Jet from Federal Aviation Agency (“FAA”) of the U.S. , and the lack of the business network and negotiation tactics to properly deal with tougher airline customers in the world. These deficiencies led MAC to a slow response to timely amendment and changes in product design to solve the flight safety troubles because it actually failed to accumulate a necessary project management capability to properly deal with a complicated and big new project, catch up with the rapid technological changes in several generations of the jet aircrafts and update the skills to comply with the TC approval procedure with FAA during more than 40 years since the launch of model YS-11, the first domestically-developed regional commercial aircraft with turboprop engines since the World War II where MHI played a leading role. Project managers’ slack reaction to acute unexpected trouble that happened off and on in the initial five years forced MAC to change its final delivery schedule

five times until 2013.

Similar sour case had happened back in March, 2014. MHI announced its intent to book an extraordinary loss for about 60 billion yen (approximately US\$ 600 million) on the two vessels from its cruise ship business in its consolidated financial results for the fiscal year 2013. In November, 2011, MHI received an order for two large-sized cruise ships for the AIDA Cruises brand belongs to the COSTA Group, a European subsidiary of Carnival Corporation & plc. Based on its previous experience building cruise ships, MHI set up a project to facilitate prompt implementation of measures necessary for the construction of newly ordered ships. Viewing the two new ships as next-generation energy-efficient cruise vessels that will function as a prototype for the AIDA Cruises brand, MHI accordingly allotted a proportionate amount of time and budget to handling the pre-construction details. The foregoing initiatives notwithstanding, as work proceeded in the actual construction phase of the project, difficulties involved in the construction of the prototype became evident. Moreover, the volume of design work relating to the cruise ships cabins and other areas has been vast and significant design changes have been made, with the combined result of a delay in the design work. This delay has translated not only to increased design costs but also to negative factors in terms of additional procurement costs for raw materials, additional hiring of many foreign engineers with expertise of cruise ship design and building, construction schedule, etc.; and these adverse influences have eroded the originally planned cost structure. Though MHI last built a large passenger ship 10 years ago, it failed to catch up with the changes in trends in ship features and specifications over the course of a decade. At the end of this project, MHI was forced to record a huge amount of cumulative losses for 230 billion yen (about US\$ 2.3 billion vs. total sales amount of only two cruise ships for Yen 100 billion. "We were optimistic and hasty in making decisions on the order based on our past experience. We realized that the principle of 'self-sufficiency', namely the thinking that we can do anything on our own, has run so deep across the company." (K. Kimura, Executive VP, Head of the project, MHI). So strong is the company's shipbuilding lore that it has kept MHI from restructuring the shipbuilding division in the past. Within the company, shipbuilding division is often thought of as "the company's core" and "honorable" because MHI was originated from the shipbuilding business in 1884 and MHI Presidents often rose up through this division so far. "The supply chain difficulties put Asian yards at a disadvantage relative to their European peers when it comes to cruise ships. We have been having difficulty finding an appropriate supply chain for Asia, especially in Japan, for some of the specifics, for some of the equipment and the systems for building cruise ships. There was a closed nature in the business arising from the massive pride.", said Mr. Miyanaga, President of MHI. They fell short of making concrete decisions, and it's apparent that MHI had not learned a full lesson from this costly incident happened back-to back.

Reflecting fully on the preceding huge trouble, in November 2016, Mr. Miyanaga, President of MHI suddenly made an unprecedented top-down decision to abort its traditional principle of self-sufficiency or “Build-it-yourself” principle and switched to unusual management system in order to shore up the confounded situation of the project. MAC then quickly hired a group of 300 multinational professional engineers who have long experience in developing regional jet aircrafts replacing most Japanese project managers and engineers, and made English as an official language in MAC. MAC then in 2018 promoted one of them as Chief Development Officer who could accelerate a process of gaining a TC approval from the FAA. With these drastic reforms in the project team, MAC expects at last to get a TC approval from FAA by mid-2020. It turns out that MHI finally decided to go with an advice in a paper of Lee (2005), which is rare case of a reorganization and a management style in the history of Japan’s conservative manufacturing sectors. Space Jet project, however, has so far cost MAC a cumulative loss for 210 billion yen (about US\$ 2.1 billion) on a total investment amount for 600 billion yen (about US\$ 6.0 billion) and nil sales amount recorded, which prompted MHI to inject additional 220 billion yen (about US\$ 2.2 billion) to wipe out a negative amount of 11 billion yen (about US\$ 1.1 billion) in liabilities in excess of assets. .

This is an intra-company case where a J-MNE parent (MHI) eventually decided to step aside from a usual leadership role to its subsidiary (MAC), and instead to play a “Supportive” role. while delegating a full management mandate to MAC which now is fully staffed with teams of multinational engineering and management who possesses a full capability and competence for the complicated project job like Space Jet. This is an unprecedented case in the history of MHI business.

(Please see Table “Summary of Alliance History”)

5. Discussion:

Amuro (1982) examined a Japanese firm which has developed under a high-context culture has much tacit knowledge of management. Therefore, in overseas business deployment, transference and control of techniques or schemes are achieved through Japanese representatives well versed in the system of the organization. Then in the survey by Hayashi (1994), in Asian countries other than Japan, a low-context management style has become dominant as a result of being exposed to intense influence from Europe and America.

For companies competing in a world without borders, it is essential to have leaders with global talent, capabilities and effective intercultural skills (Bartlett & Ghoshal, 1990; Harvey & Moeller, 2009). Possessing international experience is rare, so these managers become a valuable, limited, and inimitable resource for their organizations. To take advantage of this resource as a competitive one, the organization must necessarily identify, evaluate, and acquire

the knowledge they possess, helping to disseminate the same, which necessarily involves the right repatriation of expatriates. (Domínguez, 2016) Therefore, the high-context style of Japanese firms is a major factor which delays their localization. Realizing this gap, J-MNEs have been struggling to tackle this problem in overseas subsidiaries.

Since then, there are many public information of data, indices and research papers which objectively explain the inferior level of how J-MNEs since the burst of the bubble economy have been dealing with the global business in the past two to three decades of business stagnant.

Oddou et al.(2001) conducted a comparative research using questionnaires on the human resources program to develop an internationally-minded cadre of executives to the corporate executives in the bigger MNEs in Japan, Europe and the U.S. counterparts. At that time, J-MNEs had begun to expand their market well beyond their borders (Council for International Exchange, 1988), 35 respondents out of 100 J-MNEs showed that they emphasized expatriation more than the European and the U.S. MNEs because Japanese do not encourage their executives to join international networks so much as the European and the U.S. counterparts. So, their suggestion is that Japanese companies should emphasize international task forces or project teams much more than they currently do.

Okabe (2012), meanwhile, compared the attitudes and value of Japanese managers in listed firms in 1995 and 2009 and found that managers in 1995 were characterized by a traditional Japanese corporate culture, with a majority deeply identifying themselves with the aims of the firm, a tendency not frequently observed in the 2009 data.

A conscious transformation of top managers of J-MNEs has been observed. For example, in a survey of 584 companies carried out by the Japanese Business Federation in 2011, 30% would appoint a qualified person to be an executive regardless of nationality. Japanese firms seem to desire managerial talent who can demonstrate capability in global management regardless of nationality now. Moreover, half of the Japanese firms answered that they carry out transfer and placement of personnel according to the demands of positions regardless of nationality. A similar proportion offered opportunities for promotion and preferment equally regardless of nationality. When many Japanese firms advance global personnel training, they seem to plan to appoint able foreign persons other than Japanese more aggressively.

Despite these efforts by the J-MNEs, Japan Overseas Enterprises Association (JOEA) published an analysis report in 2014 based on the questionnaire result of the management issues and difficulties that JOEA member companies faced in their global business arena. 111 respondents which own aggregate 5,231 overseas subsidiaries pointed the pressing need of nurturing the cradle of overseas executives in-house, localization of management of the overseas subsidiaries, further delegation to local management, and globalizing their head offices with an advanced system for human-resources, information technology and financial

management as the top priority. This testifies the lack of FSAs for overseas business is the major causes why many J-MNEs have long been struggling the fast-changing global competition. This case still indicated little change of the situation that Oddou et al. (2001) elucidated in their research.

In 2019, International Institute for Management Development (IMD) of Switzerland released the Global Competitiveness Report 2019 and ranked Japan at the 30th place down from the 25th place in 2018 among 63 countries. Since placed at No.1 for consecutive 4 years between 1989 and 1992, Japan lost its strong competitiveness in the period of burst of the bubble economy. Japan continued to descend to around the 25th place since it was ranked down to the 16th place in 2006. At the same period when other ASEAN countries ascended their rankings, Japan on the contrary descended to the 7th place among 11 Asia/ASEAN countries. IMD also surveyed the international characteristics of business-persons and society of Japan. Its result generally tells the descending rankings comparing from 2018 of Japan: the 46th place down from the 36th place in the business effectiveness, the 60th place in the digital skill, the 62nd place in a foreign language ability, and the worst 63rd place in all of the international experience of corporate executives, the openness to the foreign way of thinking of the Japan's society, a data utilization, an entrepreneurialism and a positive attitude to the globalization trend. Worldwide business persons generally looked at Japan as a very closed society to foreigners. This Index also indicates some of the negative reasons for trailing J-MNEs.

There is another objective indicator in the Tokyo Stock Exchanges to show the severe viewpoint of the global investors to Japanese firms: Price to Book ratio ("PBR") which is calculated by dividing a company's stock price by its book value per share, which is defined as its total assets minus any liabilities. As at September 30th, 2019, about 50% of PBRs of the stocks of all the listed firms on the Tokyo Stock Exchange is below 1.00, worse from 34% of all firm stocks as at the end of 2017. Other six major countries show the range between 27% in Germany and 49% in Canada. PBRs at lower below 1.00 means that the liquidation of the undervalued companies to redistribute the sale proceeds back to stock investors.

These index and data clearly narrate the key challenging issues for most J-MNEs which have long been trailing and struggling in the global competition. Despite the suggestion by Oddou et al. in 2001, most J-MNEs have failed or ignored to develop the programs aiming to nurture in-house executive cadres suitable to the global business management. It may also indicate that the Japanese executive management lacked the decisiveness, leadership and overseas business and personal network to implement this program because they are usually promoted to the top executives from inside. This inward-looking attitude in the J-MNEs might come partly from the fact that Japanese domestic market in the 2nd largest GDP nation has been sizeable enough to enable Japanese firms to earn reasonable profits and Japanese market used to be protected from

the foreign competition. This business environment provided little incentive to top management of the Japanese firms to go abroad to actively seek additional new markets. It was an obvious consequence that Japanese economic growth mainly driven by the corporate sector under these constraints has long remained stagnant.

With these several disadvantages due to the lack of FSAs necessary for a global competition, some Japanese firms have in the past two to three decades chosen to survive as “the Followers” where they could earn stable revenues/profits streams by supplying the electronics components to “the Innovators” or “Flagship company” which developed the ecosystem of the innovative and game-changing products/services like iPhones rather than acting as “the Innovators”. This phenomenon tells the sad situation of the apparently decaying competence level of many Japanese executives who are usually expected to use brisk ability for foresight and brave determination to develop such innovative products/services that the society badly needs. But some of those Followers of electronics components to iPhones ecosystems have achieved higher market shares in a global market through continuous efforts to upgrade the technical advantages. This should be understood that those Followers are playing a very important role as “active Followers” in the back-end of the ecosystem, which is different role as the simple Followers in many Japanese companies. Executives of those active Followers have continued to enhance pertinent management skills required in the global supply chain system in view of the highly-rated PBR and stock valuation in the stock market.

Despite these inferior characteristics mostly witnessed in many J-MNEs as Followers, four cases discussed in Section 4 above could render a new proposition for the many trailing J-MNEs how they could gain necessary momentum to become globally competitive again through a Supportive role. These D-MNEs in four cases have similar management style, i.e. new type of alliance scheme where the D-MNEs remain Supportive actors while delegating entrepreneurial actors in the alliance the management mandates to actively run the global businesses. This is contrary to the traditional management models of MNEs in the developed economies which tend to act as controlling headquarters to guide the adequate activities of the overseas subsidiaries. It is reckoned there are two types of “Supportive” actors; “proactively Supportive one and “reactively” Supportive one. “Proactively” Supportive actors are defined as those who jointly conduct the global business and positively share the common interests in the business as indispensable partners. And “reactively” Supportive actors are defined as those in the active Followers referred above who just follow the guidance and product specification designated by the end-customers. Those “proactively” Supportive actors are found in four cases analyzed above are defined as “Supportive” MNEs in this research paper.

The first case conveys us the understanding that NP as a J-MNE eventually allowed a management mandate to the entrepreneurial partner, W in the emerging economy in the Asia and

China business. NP provided own FSAs to W during the initial period in the Southeast Asia business and then was pushed aside to a Supportive partner to W since the time when W had fully gained key FSAs through knowledge transfer from NP and actively led the business from around 1990 to a great success in China market. This interdependent relation and switching of the respective roles between NP and W worked very successfully, which is different from the traditional working relation in the D-MNEs in the U.S. and Europe. This is a very rare case taken place in the history of Japanese firms but should be a acceptable alliance model minimizing the global business risks involved for most trailing J-MNEs.

The second case depicts the similar interdependent relation between Wilmar as an emerging entrepreneurial actor and ADM as a D-MNE. ADM remains as the largest shareholder of Wilmar and a Supportive partner which delegated Wilmar a management mandate to conduct China business since dissolution of its China joint venture in several years when ADM realized the superior management ability and capability of Wilmar in China business.

The third case describes the similar alliance model between Thai entrepreneurial firm, CFF, and Itochu, a J-MNE to develop the first business of frozen foods in Thailand. CFF actively had established the business model after filled many institutional voids in Thailand together with a Supportive partner, Itochu, which helped the marketing activity in Japan market. Both have been working on an “inter-border” basis, not on a crossing the border.

The fourth case renders us a unique one in an intra-company case where the parent, MHI, as a typical J-MNE launched a new project in 2008 by sticking with a traditional “Build-it-yourself” principle. But in eight years later after a five-time delay in delivery schedule, MHI decided to change itself to act a Supportive role in order to accelerate the development while delegating a management mandate in an important development project of a new regional jet to its aircraft manufacturing subsidiary, MAC, which is mainly staffed with multinational team of 300 experienced aircraft development engineers. MHI but later changed to act as a Supporting role to MAC to change the project policy in order to accelerate the development. This project is now on course to be able to be completed as scheduled. This change of the roles has rendered a good lesson to many J-MNEs how to work closely with outsiders of foreign professionals who have appropriate expertise and experience.

Contrary to the traditional MNE theory that mostly focuses mainly on the leading & controlling role of the parents’ headquarters, these four cases suggest us the potentially new concept of a “Supportive” role of the D-MNEs which lack necessary FSAs in their alliance with emerging entrepreneurial actors. In this role, these D-MNEs furnished an established basic business infrastructure or platform to the entrepreneurial actors which still need to fill the gap in business resources required for a global competition. It also should be noted that analysis of the first and second cases presents a new destination of the consequence of the development of

the subsidiary initiative which is different from the traditional framework in the sphere of MNE theory.

6. Conclusion:

The ultimate objective of this research analysis is the first step to deduce a concept of a new strategic model cogent for many J-MNEs which have been struggling in the fast-changing global competition from the analysis of selected four cases of the international alliance between D-MNEs and emerging entrepreneurial firms.

Key findings from the analysis of four cases above are twofold. First is the practical validity of a new concept of a “Supportive” role of the D-MNEs disparate from the leading and controlling role of the MNEs discussed traditionally in an MNE theory. These successful MNEs in four cases have been long in an alliance with their entrepreneurial partners in the emerging economies. This means that acting as “Supportive” role of the D-MNEs presents one of answers to my research questions, “Why did many J-MNEs lose the competitiveness in the global arena and how could they regain the competitiveness?” This transformational approach could better fits to those struggling J-MNEs as one of better management models to achieve an common interest or mission of the global business through the strategic alliance.

This new approach could be worthwhile exploring further in depth by examining many other J-MNEs with lesser FSAs for the global competition. This concept, however, contains certain constraints and disadvantages such as “how to find appropriate business partners in the emerging economies” and “how long to reach a satisfactory level of a mutual understanding”. These disadvantages could be reasonably offset by the nature of high risks in the global business arena and a long-term orientation & view that most J-MNEs are used to be good at. One of the fastest schemes to supplement the necessary FSAs is the global M&A transaction, but it’s often times difficult for many J-MNEs to implement a post-merger-integration (“PMI”) as was reported that about 70% of M&As deals consummated by J-MNEs ended up as failure or dissatisfaction. This comes from the same cause that many J-MNEs clearly lack both the necessary FSAs, and proper skill-set and expertise to consummate the proper PMI process. Second finding is the new destination of the development of the concept of subsidiary initiative. Analysis of the subsidiary initiative in MNEs theory so far is confined to within the boundary of the framework of the relations between parents and subsidiaries. But the first and second cases above present a different destination through the organizational pivot where subsidiaries eventually overtook the leading role from the D-MNEs, as parents, in the course of the development of the alliance business due to their overwhelming contribution to the business success.

This paper makes two contributions to the field of MNEs theory. First is to cast a focus on the

new role as “Supportive” actors that is different from that of the D-MNEs have usually played as a leading & controlling role in the IB strategy. This could lead to deduct a new evolutionary framework of the practical roles of the D-MNEs to play in case of lacks of required FSAs. Second is the presentation of an aftermath in the cases of uncertainty caused in the course of the development of the subsidiary initiatives achieved by W in the first case and Wilmar in the second case, which is identified as a new destination of the consequence of the subsidiary initiative beyond the boundary of MNEs. In these cases, entrepreneurial subsidiaries who have achieved the overwhelming development of the subsidiary initiative are not hesitant to take a pivotal initiative to flip its status as subsidiaries to leading actors. This is a new type of an evolutionary structure which has not yet discussed so far in the MNE theory.

The four cases selected in this research are regarded as exploratory and pilot cases, which requires us to further investigation of additional cases of the similar nature and dynamics in order to enforce the validity as an extension of an exploratory concept of “Supportive” role for a new theory building.

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Country-of-Origin Image of Remanufactured Auto Parts “Made in” Japan and China

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ABSTRACT

Remanufacturing has been discussed during the Asia-Pacific Economic Cooperation (APEC) talks since 2006, and it is considered a key solution addressing global concerns, including resource shortages and environmental pollution. Japan and China are the two dominant powers in the Asia-Pacific region and have reasons to lay claim for leadership in the region. China and Japan have a strong economic strength to be leaders in the region. Do consumers in Asia have positive images of remanufactured products from Japan and China? We examined consumer perceptions of remanufactured auto parts “Made in Japan” and “Made in China” in four Southeast Asian countries: Indonesia, Thailand, Vietnam, and Malaysia. Based on 2000 responses (500 from each of four countries), the study provides answers to the following questions: What are Asian consumers’ perceptions towards remanufactured auto parts (RAPs) “Made in” Japan and China: the two leaders in the Asia-Pacific region? Are there any perceived differences among Asian consumers towards RAPs “Made in Japan” and “Made in China?”

Keywords

Country of Origin Effects, Consumer Behavior, Branding and Brand Management, Asia-Pacific Region, Japan, China

INTRODUCTION

Remanufacturing is the process of restoring parts by reusing components that are still functioning well and replacing worn-out components (Debo et al., 2005). It is becoming increasingly significant, and it is expected to create trade and investment opportunities across multiple products, including automotive parts, ink and toner cartridges, and information and communication technology equipment, particularly for the Southeast Asia region (UNEP, 2012). Because the Asia-Pacific region is set for a fifth straight year since 2012 of over three million new vehicle sales (ASEAN Automotive Federation, 2017), it is not surprising that remanufacturing is growing in the region (Brzytwa, 2012). Remanufacturing has been discussed during the Asia-Pacific Economic Cooperation (APEC) talks since 2006, and it is considered a key solution addressing global concerns, including resource shortages and environmental pollution.

Japan and China are the two dominant powers in the Asia-Pacific region and have reasons to lay claim for leadership in the region. Japan's economic leadership in Asia has been clearly demonstrated. Japanese industries have ongoing international competitiveness and financial strength. *FutureBrand Country Index* (2019), which measures the strength of perception of countries around the world, provides its evaluation about Japan:

When it comes to Made in, Japan has long enjoyed positive perceptions from their automotive and technology brands like Sony, Nintendo, Toyota, and Nissan. In fact, Japan coasts off these historical strengths, as those brands and others are still top of mind for this year's respondents, who rate Japan's Made in factor highly. In the social media report, we saw a clear affinity for Japan's products, with mentions of high, quality, authentic goods.

China has sustained remarkable economic growth, with real annual gross domestic product (GDP) growth averaging 9.5% through 2018. China has become the world's second-largest economy. This rapid economic development of China, coupled with visible global brands (e.g., Alibaba, Huawei, Lenovo, Gree, Xiaomi, drone maker DJI-Innovation) and the successful Beijing Olympic in 2008, can only offer a glimpse into the quick upgrading image of "Made in China" products in recent years. However, China's image suffers due to "tolerance, political freedom, safety and security, as well as value for money" (FutureBrand Country Index, 2019:120).

China and Japan have a strong economic strength to be leaders in the region. Before the UK and the US became world leaders, they were, in their time respectively, the world's premier economic power, and consumers in the world markets accepted their products. Do consumers in Asia have positive images of remanufactured products from Japan and China? This is an

important question because the attitudes and opinions of the Asian consumers towards remanufactured products from these countries, directly and indirectly, would influence acceptance and demand for such products.

The outline of this paper is as follows. First, we state the theoretical background and research questions. Second, we examine the methodology used to conduct our investigation. Third, we present the results of the data analysis. Fourth, we summarize the research findings and discuss both practical implications.

LITERATURE REVIEW

Remanufacturing

Among all remanufacturing sectors, the motor vehicle parts sector is the world's largest remanufacturing sector, accounting for an estimated two-thirds of global remanufacturing activities (USITC, 2012). Therefore, we use the automotive sector to develop this section of research. Matsumoto et al. (2018) provides a brief historical review of the growth of the Japanese remanufacturing market in the automotive sector. Japan is one of the largest exporting countries of motor vehicle parts in the world (ITA, 2011), remanufactured parts have a limited share of the market and are under developed in Japan (Matsumoto & Umeda, 2011). As regions, North America and Western Europe will continue to be the most attractive markets for

remanufacturing because of their maturity. (see Table 1) However, China is the world's leading manufacturer of cars, with 25 million car production in 2018, or 28% of all cars and trucks produced in the world. China's remanufacturing industry having been formally established in 2008 (USITC, 2012). Despite its relatively short history of remanufacturing industry, APRA (2016) predicts that increasing opportunities for remanufacturing, demand factors, expected improvement in legislative factors, global supplier presence make China the most preferred reman destination in future. (See Table 2) Therefore, the success of remanufacturing in China is very important for the growth of the sector.

Table 1 Remanufactured Automotive Aftermarket: Regional Attractiveness, outlook 2015-2022

Regional Attractiveness (Scale of 1 to 10, 10 is the highest.)	NAFTA	EU	China
Vehicles in operation	4	3	9
Average vehicle age growth	8	7	5
Degree of Market maturity	2	6	10
Acceptance of Reman parts	4	8	9
Revenue growth	4	6	9
Ease of doing business	10	10	5
Presence of global remanufacturers	10	6	2
Core availability and logistics	9	7	5
Preference for rebuilt and repaired components	8	6	2
Impact of counterfeiting and Grey Market	7	6	2
Total Score (out of 100)	66	65	58

Source:https://cdn.ymaws.com/apra.org/resource/resmgr/Events/6th_China_Reman_Summit_5-27-.pdf

Table 2 China’s Remanufacturing Market Attractiveness

	2016	2022
Remanufacturing Market	More repair centric market and dominated by regional remanufacturers/rebuilders	Increase in reman acceptance with entry of more global remanufacturers
Demand Factors	<ul style="list-style-type: none"> *Avg. vehicle age is 3.4 years *Reman quality not at par with US or EU *Top 3 categories that are remanufactured: engines, transmissions, starters & alternators 	<ul style="list-style-type: none"> *Avg. vehicle age reaching 5 years *Reman quality will significantly improve with more global remanufacturers setting up reman base *Strong environmental concerns
Legislative Factors	<ul style="list-style-type: none"> *Import of reman parts and/or cores is not permissible *Usage of reman parts for warranty replacements not permissible *Certain provinces only allows JVs with local firms 	<ul style="list-style-type: none"> *Government is in process of relaxing import policies *Setting up reman factories across China will be made easier by government
Global Supplier Presence	Currently, Cummins, CAT, Bosch, BorgWarner, Delphi, and WABCO Reman are the among the few global suppliers who have reman presence in China	<ul style="list-style-type: none"> *It is expected that Volvo and Mercedes-Benz will start reman operations in the near future *GM is in process of setting up a reman operation through JV

Source:https://cdn.ymaws.com/apra.org/resource/resmgr/Events/6th_China_Remman_Summit_5-27-.pdf

Made in Image

Remanufacturing has its roots at the beginning of the industrial age (Steinhilper, 1998), and it

has been applied in various product areas. Research of remanufacturing has been conducted on

such topics as remanufacturing process techniques, product design for remanufacturing, operations research, consumer attitudes on remanufactured products, business models for remanufacturing (or product-service systems), legislation policies, and so on (Matsumoto et al., 2017; Nasr. et al., 2017). Over the last several decades, Asian markets have transformed significantly due to the processes of globalization. This increased globalization should lead to greater acceptance of different cultures, thus resulting in improved consumer perceptions and behavior regarding foreign products. The success or failure of a company largely depends on the attitudes of those who are in a position to make purchasing decisions. When the customer becomes aware of the country-of-origin (COO) of products, there is the possibility that the place of manufacture will affect product or brand images.

Past research shows that the economic development level of a country seems to be one of the most significant factors that affect the consumers' perceptions of product quality and buying behavior (Baughn & Yaprak, 1993; Chinen et al., 2000; Crawford and Lumpkin, 1993; Matsumoto et al., 2018). In general, consumers have more positive attitudes toward products from countries they perceive to be more industrially developed because these countries are expected to produce goods with greater product quality. A positive national image is a valuable asset for global remanufacturing companies.

In general, industrialized countries have the highest quality image, and products from developing countries encounter bias (Chinen et al., 2000; Steenkamp et al., 2006; Wang & Lamb, 1983). Heslop and Papadopoulos (1993) and Gaedeke (1973) contend that products from more advanced countries generally receive more positive evaluations than those from developing countries since the advanced countries are considered to produce goods with greater “product integrity.”

Past studies have claimed that Japan enjoys a better country image than many other countries, including the US, in many country markets. Damanpour (1993) has noted that a great many studies have shown that US consumers assign greater confidence to Japanese products than those of other major industrial countries. Shimp and his colleagues (1993) showed a competitive edge for made in Japan products in terms of its enviable position of being simultaneously perceived as a producer of high-quality and low-priced goods. In the study conducted by Heslop and Papadopoulos (1993), US consumers rated the quality of Japanese products higher than that for other advanced countries’ products. Consumers’ positive evaluation of Japanese products has been consistent over a few decades (e.g., Johnson et al., 2016).

In the past some decades, China has been attracting substantial investments from conservative investors seeking higher returns for their money. Since the mid-90s, China, with a

vast pool of low-cost labor force, has transformed itself as an automobile manufacturing for both multinational and domestic companies. World-class automobile companies have invested in China to manufacture and even export products to Europe, demonstrating China's ability to deliver quality products if managed in the approved manner. In the 2008 Olympic, particularly in the opening and closing ceremonies, China has successfully advertised its image as a high-tech and innovative country and created the perception that deserves world attention. Despite the length of exposure to "Made-in China" products and significant demand observed for Chinese products in the Asian market, previous studies show that the image of "Made-in China" is stereotyped.

As the Chinese remanufacturing market evolves from repair-centric to service-oriented (Matsumoto et al., 2018) and as the Government starts to relax its policies (see Figure 2), remanufactured parts will emerge as the most feasible and practical option, "China can become a preferred destination for remanufacturing in the future" (Frost & Sullivan, 2019) as long as global consumers accept products 'Made in China.' Therefore, consumer perception matters.

"[R]esearch examining consumer markets and perceptions of remanufactured products has been scarce" (Abbey et al., 2015; Jiménez-Parra, et al., 2014; Michaud & Llerena, 2011).

Researchers recognize that perceptions, i.e., attitudes and actions toward a situation, are crucial in consumers' decisions, but few studies examine perceptions of remanufactured products

(Matsumoto et al., 2017). Examining ambiguity tolerance, perceived quality, and willingness to pay, Hazen et al. (2012) find a direct relation between consumers' tolerance for ambiguity and willingness to pay for remanufactured products. Wang et al. (2013) expand their investigations of factors influencing Chinese consumers' intent to purchase remanufactured products, drawing on theories of planned behavior and perceived risk. Jimenez-Parra et al. (2013) examine influences on Spanish consumers' intent to purchase remanufactured computers. Qualitative research by Sundin et al. (2008) identifies cultural behavior, closeness to a secondary market, and emphasis on price as reasons why remanufacturing is more advantageous in the US than in Sweden. We focus on consumers' perceptions towards remanufactured auto parts (RAPs) in four Southeast Asian countries: Indonesia, Thailand, Vietnam, and Malaysia. This study addresses the simple questions:

- 1) What are Asian consumers' perceptions towards RAPs "Made in Japan" and "Made in China": the two leaders in the Asia-Pacific region?
- 2) Are there any perceived differences among Asian consumers towards RAPs "Made in Japan" and "Made in China?"

METHOD

Target countries and products

We examined consumer perceptions of remanufactured auto parts (RAPs) in four Southeast Asian countries: Indonesia, Thailand, Vietnam, and Malaysia. The automobiles have been increasing rapidly in Asian countries and the markets of RAPs started growing in some Asian countries. The levels of the growth of auto parts remanufacturing industries and the RAPs markets vary in the four countries. The industry in Indonesia and Malaysia is growing significantly in recent years (APEC, 2015). The Malaysian government is active in the development of a promising remanufacturing industry within a local hub for remanufacturing (Yusop et al., 2016). Vietnam does not have an identified auto parts remanufacturing industry (Guidat et al., 2017). However, since the government has declared a decree on the management of wastes and scraps, it may encourage the creation of an industry in the next few years. The auto parts industry for both commercial and passenger vehicles predominantly offers reused and repaired parts in the aftermarket in Vietnam.

Among remanufactured products, this study focuses on consumer perceptions of RAPs made in China and Japan. The auto parts sector is selected because it is the world's largest remanufacturing sector, accounting for an estimated two-thirds of global remanufacturing activities (Steinhilper, 1998; USITC, 2012). More specifically, this study focuses on alternators and starters (A/S) because they are the most representative of RAPs.

Respondents and translation

From January to February 2017, we surveyed consumer perceptions toward RAPs in four Asian countries: Indonesia, Thailand, Vietnam, and Malaysia. The number of respondents was 500 in each country, and they met three conditions. First, they were 20–69 years old and licensed drivers. Second, each person owned at least one car and was its primary driver. Third, each person had experience taking the car in for repairs or had experience repairing it himself/herself. To confirm this, potential respondents provided profile information that determined if they were qualified and were then allowed to proceed with the full questionnaire.

We followed Harkness et al. (2010), and Brislin (1980) to facilitate cross-cultural comparisons and to assure comparability of questionnaire items. Items were translated and back-translated to assess cross-cultural equivalence. This process was important for assuring that the questionnaire was comprehensible (Brislin, 1980).

Country-of-origin (COO) image on RAPs

Two measures verify the COO image on RAPs: the perception toward RAPs and the willingness to purchase RAPs in the target countries (already mentioned). Table 3 shows that the perception toward RAPs in the target countries is determined by five questions using the seven-point Likert scale that ranges from “1: strongly disagree” to “7: strongly agree.”

Table 3 Country-of-origin image of remanufactured alternator and starter

Construct	Element (seven-point Likert scale)
Country of origin effect on the perception toward RAPs	<p>Remanufactured alternator and/or starter (A/S) made in [] are carefully produced and have fine workmanship.</p> <p>Remanufactured A/S made in [] show a very high degree of technological advancement.</p> <p>Remanufactured A/S made in [] are usually quite reliable and seem to last the desired length of time.</p> <p>Remanufactured A/S made in [] are usually a good value for the money.</p> <p>Remanufactured A/S made in [] are usually environmentally friendly.</p>

(Note) The blank in each sentence includes a country: China and Japan.

Purchase intention on RAPs

Purchase intention is defined as “(the) individual assessment of future willingness to buy” in reference to Wang et al. (2013). Table 4 describes question regarding country of origin image and the purchase intention of RAPs.

Table 4 The purchase intention of RAPs and related constructs

Construct	Element (seven-point Likert scale)
Country of origin effect on the willingness to purchase RAPs	If I need to buy remanufactured A/S, I am willing to buy remanufactured A/S made in [] .

(Note) The blank in the sentence includes a country: Indonesia, Thailand, Vietnam, and Malaysia, Thailand, or Vietnam.

RESULTS

Profile of sample consumers

Table 5 presents the summary statistics of personal characteristics: gender, age, purchase experience of RAPs, and self-rated repair skills (based on yes or no responses to the question, “I have basic auto repair skills”).

Male respondents represent 62% in Indonesia, 50% in Thailand, 60% in Vietnam, and 47% in Malaysia. For all four countries, approximately 40% of respondents are less than 29 years old or younger. About 50% of respondents had purchase experience of RAPs in Indonesia and Thailand, 66% in Vietnam, and 40% in Malaysia. About 46% of respondents had no basic skills in fixing a car in Indonesia, 66% in Thailand, 70% in Vietnam, and 35% in Malaysia.

Table 5 Summary statistics of sample consumers

		Indonesia (N=500)	Thailand (N=500)	Vietnam (N=500)	Malaysia (N=500)
Gender (Male =1, Female=2)	Mean	1.378	1.5040	1.402	1.528
	S. D.	.48537	.50048	.49079	.49972
Age	Mean	2.754	2.790	2.728	2.780
	S. D.	.73113	.80199	.78438	.83246
Purchase experience (No=1, Yes=2)	Mean	1.486	1.512	1.332	1.580
	S. D.	.50030	.50036	.47140	.49405
Self-rated repair skill (No=1, Yes=2)	Mean	1.534	1.338	1.296	1.654
	S. D.	.49934	.47350	.45695	.47617

(Note)

1. Age: 1=Under 20, 2=20s, 3=30s, 4=40s, 5=50s, 6=60s, 7=Over 70
2. S. D. = standard deviation

Country-of-Origin Image and Purchase intention

In Tables 6a, b, c, d, the results of the t-test are denoted for Indonesia (6a), Thailand (6b), Vietnam (6c), and Malaysia (6d). All the test results indicate that there are significant differences of perceived image toward RAPs made in Japan and China: Carefully produced and have fine workmanship (pair 1); high degree of technological advancement (Pair 2); reliable and long-lasting (Pair 3); value for the money (Pair 4); environmentally friendly (Pair 5). Thus, consumers in these countries rated RAPs made in Japan significantly higher than those made in China regarding purchase intention (Pair 6).

Table 6a COO Image in Japan and China: Paired Samples Statistics - Indonesia

		Mean	N	Std. Deviation	Std. Error Mean	t-value	Sig. (2-tailed)
Pair 1	JP_Careful	5.5760	500	1.28356	.05740	21.896	.000
	CH_Careful	3.9560	500	1.53060	.06845		
Pair 2	JP_TechAdv	5.5060	500	1.33324	.05962	19.773	.000
	CH_TechAdv	4.0560	500	1.48232	.06629		
Pair 3	JP_Reliable	5.4000	500	1.28815	.05761	20.661	.000
	CH_Reliable	3.8720	500	1.51400	.06771		
Pair 4	JP_Value\$	5.3180	500	1.34032	.05994	16.964	.000
	CH_Value\$	4.0540	500	1.54657	.06916		
Pair 5	JP_EnvFriend	5.2260	500	1.33959	.05991	18.938	.000
	CH_EnvFriend	3.8680	500	1.48964	.06662		
Pair 6	JP_WillBuy	5.4060	500	1.38456	.06192	20.194	.000
	CH_WillBuy	3.7560	500	1.62535	.07269		

Table 6b COO Image in Japan and China: Paired Samples Statistics – Thailand

		Mean	N	Std. Deviation	Std. Error Mean	t-value	Sig. (2-tailed)
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Pair 1	JP_Careful	4.9600	500	1.43475	.06416	13.254	.000
	CH_Careful	3.9740	500	1.62807	.07281		
Pair 2	JP_TechAdv	5.2400	500	1.34388	.06010	15.311	.000
	CH_TechAdv	4.2000	500	1.55204	.06941		
Pair 3	JP_Reliable	5.1480	500	1.31360	.05875	14.680	.000
	CH_Reliable	3.9960	500	1.64603	.07361		
Pair 4	JP_Value\$	4.9480	500	1.38026	.06173	10.396	.000
	CH_Value\$	4.1600	500	1.62594	.07271		
Pair 5	JP_EnvFriend	4.9600	500	1.36018	.06083	12.540	.000
	CH_EnvFriend	4.0060	500	1.64663	.07364		
Pair 6	JP_WillBuy	5.0660	500	1.38328	.06186	14.006	.000
	CH_WillBuy	3.9200	500	1.72498	.07714		

Table 6c COO Image in Japan and China: Paired Samples Statistics - Vietnam

		Mean	N	Std. Deviation	Std. Error Mean	t-value	Sig. (2-tailed)
Pair 1	JP_Careful	5.7780	500	1.29463	.05790	17.858	.000
	CH_Careful	4.0900	500	1.89766	.08487		
Pair 2	JP_TechAdv	5.7400	500	1.27737	.05713	18.410	.000
	CH_TechAdv	4.1500	500	1.84127	.08234		
Pair 3	JP_Reliable	5.7900	500	1.21526	.05435	20.143	.000
	CH_Reliable	3.8700	500	1.92679	.08617		
Pair 4	JP_Value\$	5.6600	500	1.27107	.05684	16.766	.000
	CH_Value\$	4.1160	500	1.91569	.08567		
Pair 5	JP_EnvFriend	5.6080	500	1.35129	.06043	17.845	.000
	CH_EnvFriend	3.8700	500	1.96999	.08810		
Pair 6	JP_WillBuy	5.7580	500	1.28012	.05725	17.983	.000
	CH_WillBuy	3.8860	500	2.08943	.09344		
Pair 7	JP_LikelyBuy	5.8480	500	1.27442	.05699	19.498	.000
	CH_LikelyBuy	3.9140	500	2.01959	.09032		

Table 6d COO Image in Japan and China: Paired Samples Statistics – Malaysia

		Mean	N	Std. Deviation	Std. Error Mean	t-value	Sig. (2-tailed)
Pair 1	JP_Careful	5.0640	500	1.44224	.06450	21.337	.000
	CH_Careful	3.3820	500	1.43952	.06438		
Pair 2	JP_TechAdv	5.1200	500	1.33910	.05989	22.074	.000
	CH_TechAdv	3.4540	500	1.44085	.06444		
Pair 3	JP_Reliable	5.1300	500	1.34637	.06021	22.422	.000
	CH_Reliable	3.2960	500	1.52743	.06831		
Pair 4	JP_Value\$	4.9940	500	1.27641	.05708	17.688	.000
	CH_Value\$	3.5400	500	1.54180	.06895		
Pair 5	JP_EnvFriend	4.9100	500	1.28109	.05729	20.217	.000
	CH_EnvFriend	3.3320	500	1.50941	.06750		
Pair 6	JP_WillBuy	5.0700	500	1.34190	.06001	21.376	.000
	CH_WillBuy	3.2400	500	1.51889	.06793		

DISCUSSION

This research examines 1) Asian consumers' perceptions toward RAPs Made in Japan and China, and 2) perceived differences of the image toward RAPs Made in Japan and China. This study found significant differences of the perceived image of RAPs between “Made in Japan” and that “Made China” concerning following six items: carefully produced and have fine workmanship; high degree of technological advancement; reliability and long-lasting; value for the money; environmentally friendly; and purchase intention. These findings are consistent with the report published by *FutureBrand Country Index* (2019) that Japan stands as the top country

brand in the index and continue to receive a solid reputation in the world. China, on the other hand, is ranked 29th position in the index, sandwiched between Kuwait and Saudi Arabia. The index suggests that China needs to improve the “Made in” image as well as “Value for Money.” This suggestion is very important. For example, Fatimah et al. (2013) compared RAPs to new products in Indonesia and found substantial perception differences in the reliability of RAPs and new products. Consumers in Asian countries may reasonably expect the quality of RAPs to be lower than that of ‘like new’ products. They may assume the risk factor associated with their purchasing decision. In the survey conducted by APICS (2014), only 48% of respondents stated that remanufacturing was between *less than moderately visible* and *not visible at all*. 56% of respondents stated they could trust remanufactured products.

In addition to poor visibility and lack of trust issues in remanufactured products in general, China needs to improve its own product and country image and establish the country as a leader of a quality green manufacturer in the Asia-Pacific region. Specifically, *FutureBrand Country Index* (2019:122) provides the following suggestion:

China’s rapid economic development has come with a steep cost: the environment. The Chinese government will not make any sweeping changes to reverse these environmental damages either, as they have their sights set exclusively on the economy.

Our research shows that Japan continues to gather a strong impression of the product image and environmental friendliness image. *FutureBrand Country Index* (2019) warns Japan to be aware of their challenges: Japanese brands falling out. Also, “Made in Japan” products don’t have cost advantage over Chinese products. But, the index also notes that the 2019 *Rugby World Cup* and the 2020 *Summer Olympics in Tokyo* will allow Japan “to deepen positive perceptions and motivate people from all over to emulate its culture, enjoy its products” (p. 55).

CONCLUSION

Japan’s rapid economic growth between the 60s and 80s and China's amazing development in the past few decades has fueled rapid growth in material consumption. Their development pathway will place unprecedented tension on resources and ecosystem services. The circular economy concepts provide two leaders in the Asia-Pacific region an opportunity to decouple growth in material consumption from the raw material supply in the process of reducing the extraction of raw materials and associated environmental externalities.

We recommend Japanese and Chinese leaders that they take the sustainability approach, both in terms of achieving resource efficiency and boosting the competitiveness of the manufacturing sector, and incorporated recycling materials and remanufacturing of products.

This study has limitations that offer opportunities for future research. We focused on the consumers' perceptions of RAPs in four countries. However, the RAP markets in developing and transition countries are different from those in developed countries where most existing studies on consumers' perceptions of remanufactured products have been undertaken. Studies that integrate the investigation of markets and the analysis of consumer perceptions in various countries are needed to further clarify the cross-regional differences in consumer perceptions concerning remanufactured products.

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Economic opportunities generated by the Belt and Road Initiative in the context of Japan's position in Global Value Chains

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Economic opportunities generated by the Belt and Road Initiative in the context of Japan's position in Global Value Chains

Japan, although itself not a part of one belt or one road economies, with China's strengthening position in Asia looming, has taken measures to amend the bilateral relations between the two countries. At the same time, examination of the structure of Japan's output in the two perspectives of backward and forward linkages shows that during the analyzed period from 2004 to 2014, Japan became more reliant on Chinese imports and Japanese market faced declining domestic demand.

Participation in the Belt and Road Initiative, which can give Japan a broader access not only to Southeast Asia but also to Africa and Central Asia seems to be a source of plural economic opportunities. However, it needs to be stressed that Japan already has a well-established position in the region, playing the role of major investor, importer, and know-how and technology exporter.

Key words: global value chains analysis, international trade theory, China, Japan

1. INTRODUCTION

According to the Chinese Belt and Road Portal, since the Belt and Road initiative (BRI) commenced in 2013, China has been improving its diplomatic relations with many countries situated along the B&R routes (Belt and Road Portal, 2019). Japan, although itself not a part of one belt or one road economies, with China's strengthening position in Asia looming, has also taken measures to amend the bilateral relations between the two countries. As a result, Japanese Prime Minister Shinzo Abe met with Chinese Premier Li Keqiang in China in October 2018, during the first official visit to this country in seven years (Brînză, 2018). As a part of the visit, the first Japan-China Forum on Third Country Business Cooperation

was held. The Forum delivered 52 signed memoranda of cooperation in areas such as infrastructure, logistics, IT, healthcare, finance etc. (Ministry of Foreign Affairs of Japan, 2018).

Asia and Pacific accounts for almost 46% of global GDP, out of which Southeast Asia represents 6.5% of total output (IMF, 2019). OECD 2019 reports that despite global trade frictions, trade in the region is developing, with several agreements in progress. Moreover, it is expected that FDI inflow will show further increase (OECD, 2019). With this perspective, the region grows in importance for major economies in Asia: China and Japan, and the two countries' competition over Southeast Asia may lead to a win-win economic cooperation, as the first step in improving their relations has already been taken.

This article aims at identifying Japan's position in the global value chains, especially in the context of China's rising influence over Asian value circulation and the region as a whole. It also analyzes economic opportunities stemming from Japan's involvement in the Belt and Road Initiative, assuming that this would make the BRI economies more open to Japan.

Cooperation between Japan and China is essential for the future growth of not only these two nations but also for that of the region. BRI could become a systematic approach to such a collaboration if it is executed with transparency and focused on universal goals like those put forward by the United Nations, targeting quality, sustainable industrialization, technology development and human well-being, etc.

To assess the shifts among the leading economies in Asia and the consequences of the BRI advancement, a three-step analysis is performed. The first step is meant to describe, by means of literature review, the changes that take place in the global value chains with focus on Asia and on Japan. The second step, also drawing from the existing literature, is designed to determine the issues related to the BRI that have or may have impact on Japan. Finally, the third step involves a two-fold data analysis, a conventional one based on data on trade and foreign direct investment and another, with a more recent approach based on data on the value-added flows, devised to capture the transformation in Japan's economic activity in more

detail. Special attention is paid to the role that China and Southeast Asia play in Japanese trade and investment and this is shown against the background of other countries of the world.

The data comes from various sources such as Japan External Trade Organization (JETRO), China Customs, Japan's Cabinet Office, Japan's Ministry of Foreign Affairs and the World-Input-Output Database (WIOD), OECD Trade in Value Added.

2. LITERATURE REVIEW

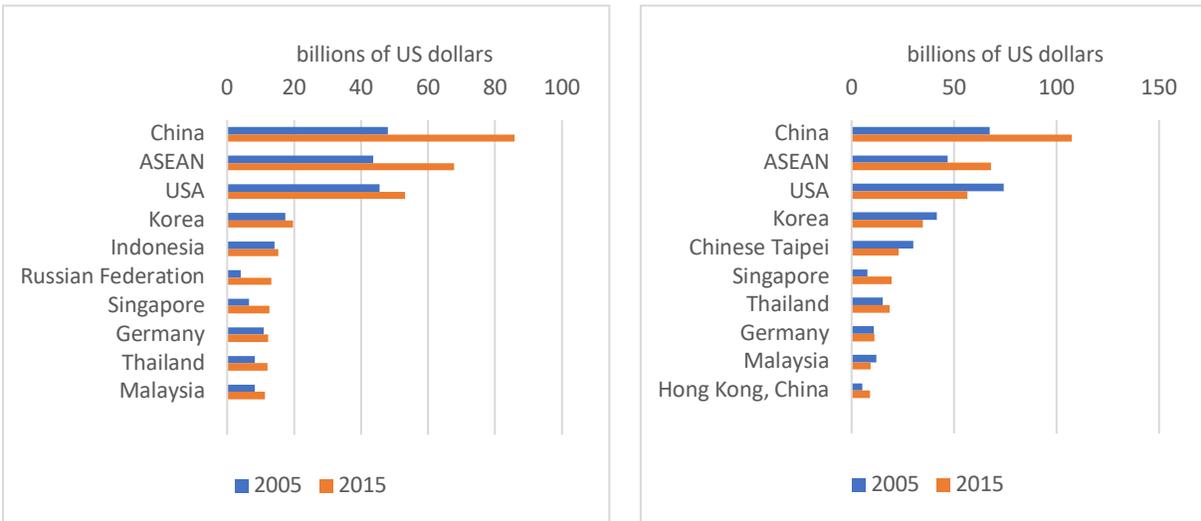
The phenomenon of the “second unbundling” of globalization resulted not only in an increased volume of merchandise crossing borders but also in higher international mobility of managers and know-how. This helped the nations located nearby economically strong neighbors – in this case Japan - to accelerate their process of industrialization, which in turn revolutionized the global model of trade and manufacturing by establishing “a new class of commodity-reliant emerging markets” (Baldwin & Gonzalez 2013: 5).

As the industries across the globe grew in dependency on imports of intermediate products, it became clear that the indicators based on gross exports overrate competitiveness of economies (Timmer, Los, Stehrer, de Vries, 2013). The most recent OECD Trade in Value Added statistics show that in 2015 globally, the most significant quantity of intermediates was supplied to a wide network of recipients by China, US, Germany and Japan, who dominated the global supply chain.

Figure 1. Gross exports (imports) of intermediate products to (from) Japan by origin (destination) country (2005 and 2016, billions of US dollars)

Gross exports

Gross imports



Source: Author's own elaboration based on: stats.oecd.org, accessed 12.12.2019.

As far as the data on value added flows is concerned, Baldwin and Gonzalez (2013) point to the fact that WIOD is biased towards European countries and does not offer a full picture of the trade networks in East Asia. However, when supported by the data by OECD TiVA, it is possible to see more clearly that the trade in intermediates between Japan, China, Korea and ASEAN is of no less significance. Moreover, two of the four manufacturing giants (the United States, China, Germany and Japan) are located in Asia, making this global network, the so-called Factory Asia, particularly important (Baldwin & Gonzalez, 2013).

Various examples of sourcing among the four global giants can be noticed. For example, as at 2015, Japan turned out to be the smallest intermediates buyer and supplier (each 10% of total intermediate trade among OECD member and non-member countries), however, between 2005 and 2015 its imports grew at a faster rate of 26% (of 15% for exports). China and the United States were the nations with the highest shares of imports and exports in total intermediate trade among OECD and non-OECD countries, but their exports increased faster than imports. In 2016, Japan sourced large amounts only from China and the United States and sold large quantities of intermediates only to China, the United States and Korea (OECD TiVA) and as it was explained by Baldwin and Gonzalez (2013), Japan has been an essential supplier of intermediates used in exports but mostly for other Asian countries (Baldwin & Gonzalez 2013: 30).

Nevertheless, these trends are dynamic and recently we can observe that China is substituting domestic intermediates for foreign materials more often (Constantinescu, Mattoo, Ruta, 2015). ICT and electronics sector is a good example of this – the share of foreign content in China’s biggest export industry decreased from 43% in 2005 to 30% in 2015 (OECD, 2018).

Furthermore, Japan is more involved in reimporting than reexporting, which may stem from the production networks in Asia being more complicated. China supplies its partners, e.g. Korea, the United States and Japan with various low-tech intermediate goods. These products are incorporated in high-tech components, the final assembly of which is taking place back in China. Kimura, Takahashi and Hayakawa (2007) argued that production networks in East Asia are more refined than in other global “factories” in terms of significance for the economy, the number of partners and the complexity of structure. It has been observed that a new pattern of trade emerged, described as an intra-industry “vertical” trade. Further, it is assumed that the widely acknowledged model of “horizontal” product differentiation (the “Europe” model) does not match East Asian trade characteristics and that the present trade patterns are better explained by the fragmentation theory (the “East Asia” model). However, the development of such distinctive networks depends on several factors, one of them being the MNEs, and their history and tradition is not without significance (Kimura et. al, 2007).

Moreover, although Japan was the country worst affected by the Global Financial Crisis of 2008, the nation’s machinery sector, its key export sector, continued to export parts and components to Asian partners (Okubo, Kimura, Teshima, 2014). More recent empirical work by Obashi and Kimura (2016) proves, however, that between 2007 and 2013 Japan remained stagnant while China grew into the leading role of the global machinery production network. In this aforementioned study, the analysis of exports of machinery parts, components and final products from China, Korea and Japan showed an increasing engagement of the three nations in the intra-East Asian network, but also a growing dependence of the latter two countries on China. It is worth mentioning that during the time in question the trade between Korea and Japan declined (Obashi & Kimura, 2016).

At the same time, we can see that China undertook several measures to improve and strengthen its relationship with Japan and ASEAN and softened its foreign policy, with a perspective of laying ground for implementing the Belt and Road Initiative (Aoyama, 2016). Moreover, Japan initially declared its stance towards the BRI as a “non-participation” state. Nevertheless, from 2017 on, the country has opted for “conditional engagement” by means of business collaboration. Ito (2019) puts forward three hypotheses about this change of Japan’s government standpoint, the first of which is the future economic cooperation, particularly in energy, infrastructure and logistics sectors (Ito, 2019).

2.1. Theoretical Approach

A brief analysis of the literature on Japan’s role in the regional value chains results in a conclusion that China plays an increasingly important part in the country’s economy and that the economic interdependence between Japan and China has increased. Another manufacturing giant has emerged at the side of Japan: China. Chinese exports’ growth after 1998 was remarkable and the country’s attractiveness as a foreign direct investment destination increased considerably, which propelled the structural transformation of the economy and had an impact on the regional status quo. The theoretical framework of the double circulation of global value chain centered on China explained by Zhang, Tang and Yi (2019) offers some insight to this situation (Zhang et.al, 2019). China strengthens its position in two circulation systems, one with developed countries like the United States or European nations, and another that consist of developing economies in Asia, Africa and Latin America. The former, upper circulation of value occurs through technology absorption, industrial divisions, capital and investments, while the latter, lower circulation system works mostly through Chinese investments and trade. As a result, China connects developing economies with the developed ones, leading to a model in which not only the developed but also developing economies drive global economic growth. China is simultaneously taking Japan’s place in both these systems (Zhang et.al, 2019: 93). From this perspective, the Belt and Road Initiative can be seen as a managerial tool to organize and coordinate the development of this emerging model of globalization,

although, its impact on Japan, a developed country, closely connected to China economically, still needs to be studied.

To illustrate the process of China becoming the central nod, at least in Asia, indexes of core periphery division developed by Grodzicki and Geodecki (2016) are applied to empirically grasp the changes occurring in the integration and competitive positions within the GVCs for China, Japan and Korea (for comparison). The first index of position explains the pattern of competitiveness. It is meant to reveal if an economy competes with low-cost labor, know-how, and whether financing is provided by domestic or foreign companies. The second index of connectedness, built on FDI and trade data, helps to evaluate a country's integration with the global economy. Finally, the third index of GDP facilitates the assessment of an economy's backwardness (Grodzicki & Geodecki, 2016).

Table 1. Position, connectedness and GDP indexes of China, Japan and Korea (for comparison), for years 2005 and 2015 (2005 and 2016 if the previous year was not available)

	China		Japan		Korea	
	2005	2015	2005	2015	2005	2015
1. Index of position	-0.80	-0.68	0.33	0.38	0.47	0.31
Unit labor costs	49.6	51.6	54.7	53.8	56.1	54.3
Exports of high-technology products (as % of total exports)	30.7	26.6	16.9	8.5	30	21.7
Patent applications per million of population	3.0	16.8	204.6	327.6	108.3	236.8
Net FDI stock as % of GDP	-3.2	-0.6	7.1	20.5	-5.7	5.8
2. Index of connectedness	-0.48	-1.02	-0.36	0.03	0.84	0.99
Sum of inward and outward FDI stocks as % of GDP	5	11.8	12	27.3	12.3	25.5
Openness of the economy (imports plus exports to GDP)	62.2	39.6	26.5	35.6	71.2	95.3
3. Index of GDP	-1.36	-0.53	1.01	1.79	0.35	1.38
GDP per capita (1000s PPS)	5.08	14.4	31.7	40.4	24.2	35.8

Source: Author's own elaboration based on Grodzicki and Geodecki (2016) methodology and data by Eurostat, UNCTAD, ILOSTAT and World Bank.

Japan is characterized by the highest level of GDP per capita, followed by Korea and China, however, that last country showed the strongest growth of the indicator during the time in question. As far as the index of position is concerned, its value improved for China, propelled by domestic capital and increasing number of patents. Out of the three countries China continues to be the most significant high-tech exporter and becomes a more and more important FDI sender. This situation contributes to the creation of better jobs and higher income generation (proved by an increase in the share of labor costs in GDP).

Deterioration of China's index of connectedness and lower openness of the economy may suggest an increasing magnitude (and fragmentation) of trade and investments mixed with growing amount of domestically produced intermediates.

At the same time, the connectedness of Japan and Korea improved, and that of the latter was characterized by the most profound openness of the economy. The index of position for Japan remained almost unchanged. The country strengthened its position as a capital sender, while Korea transformed from a net FDI recipient to a net investor. Both nations, to a great extent, depend on own technological ideas.

Altogether, the results imply that the process of China's shift towards the central position in Asia is indeed taking place, although the country still belongs to the group of developing economies with low wage share in total output and GDP per capita.

3. THE BELT AND ROAD INITIATIVE AND RESPONSES FROM JAPAN

The present Belt and Road Initiative (BRI) can be traced back to the 1970s, when first economic reforms were implemented in China. Also, the "open door" policy of the 1980s, followed by the "go out" policy developed in the 1990s and introduced in 2001 are considered to be the very beginning of China's speeding "globalization with Chinese characteristics" (Joshua 2019: 13).

The subsequent five-year plans (the Tenth 2001–05, the Eleventh 2006–2010, and the Twelfth 2011–2015) effectively enforced policies aimed at the expansion of Chinese trade and overseas investments, evolving from export and international trade competitiveness-focused policies to those centered on foreign assets, research and new technologies. Eventually, under the Chinese economy’s “New Normal” the Belt and Road Initiative was announced, which is regarded as an inevitable outcome of the increasing importance of Asia’s economic performance (Zhang et. al, 2019).

Geographically, the Belt and Road initiative refers to the “Silk Road Economic Belt” (land routes in Asia and between Asia and Europe) and the “21st Century Maritime Silk Road” (ports from the eastern coast of China to the ports in West Africa and the Mediterranean Sea) initiatives, which were first made public by Chinese President Xi Jinping in 2013 in Kazakhstan. Jointly, these initiatives account for a China-managed scheme for multinational economic development, mostly in Eurasia (Cheng, Song, Huang, 2019). This global, multinational project aims at enhancing the interconnectivities between people and economies by means of policy coordination, unimpeded trade and connectivity of infrastructure (NDRC, 2015; NDRC, 2019). From the economic point of view, the BRI concentrates on infrastructural investments based on inter-governmental contracts and geopolitical strategy that affects almost every country (Voon & Xu 2020). By the end of May 2019, the government of China signed 173 cooperation agreements with 125 countries and 29 international organizations (NDRC, 2019). Indeed, there are voices that since the BRI includes projects for developing economic corridors connecting China to Europe and for facilitating trade between all economies involved, it supports the implementation of the United Nations Sustainable Development Agenda (Ramasamy, Yeung, Utoktham, Duval, 2017).

The initiative’s industrial cooperation promotes third-party market cooperation “and aims to build industry, supply, service, and value chains that benefit all and are shared by all” (NDRC, 2019: 30-31). So far China has signed third-party market cooperation agreements with France, Italy, Spain, Japan, and Portugal (NDRC, 2019). Moreover, institutions such as research centers on the BRI have been established in several countries: the UK, Japan, Korea, Singapore, Kazakhstan and others. The first strategic think-

tank on the project – the Belt and Road Initiative Japan Research Center (BRIJC) – was established in Japan in November 2017 during the International Symposium commemorating the 45 years of Japan-China diplomatic normalization. The Center delivers seminars, organizes conferences and forums, and conducts research on the initiative (brijapan.org/).

In spite of voices of skepticism from some of the Japanese officials towards the BRI, in June 2017 the Japan Times reported on Japanese government’s shift in stance towards the BRI marked by the PM Shinzo Abe’s words that Japan is willing not only to cooperate (under certain conditions) with China’s initiative for infrastructure development but also considers affiliating with the China-established Asian Infrastructure Investment Bank (AIIB). Abe described the initiative as having “potential to connect East and West as well as diverse regions found in between” (www.japantimes.co.jp, 2017).

Sano (2018) notes that the BRI brings the opportunity for the Japanese government to pursue its plans of realizing economic ambitions through expanding overseas investment in infrastructure and that the “Free and Open Indo-Pacific” (2016), meant to promote fundamental principles in the region, enhance connectivity through quality infrastructure and address the challenges for peace and stability, could accomplish the initiative’s regional cooperation. Further, Sano (2018) points out that “The BRI still has the potential to establish a new global economic center of gravity. For Japan, China remains not only an important trade partner, but also a country with which Japan could construct a ‘Mutually Beneficial Relationship Based on Common Strategic Interests’” (Sano, 2018).

“Mutually Beneficial Relationship Based on Common Strategic Interests’ with China in all areas” is mentioned in the governmental document “National Security Strategy” (2013), where the Japanese government refers to the importance of building trust and cooperative relations with its partners (National Security Strategy, 2013).

Table 2. below summarizes a selection of existing research on the Belt and Road Initiative, which includes the Japanese perspective regarding economic and other issues related to the Initiative

Table 2. Key statements on Japan in the context of the BRI in recent international literature

Author	Economic Issues related to the BRI	Other issues related to the BRI
2018 J. Young	<p>Positive response from Japan with a debate across economic sectors and within business communities;</p> <p>A way of increasing economic opportunities with China through increased engagement, including in the third markets, however there are questions about multilateralism, WTO conceptions of free trade and international standards on investment, procurement, labor contracting, environmentalism;</p> <p>Increased Chinese engagement in the region is seen as a threat to the power and influence of the existing advanced economies.</p>	<p>Impact on norms and standards underpinning the regional economic and security order;</p> <p>Transparency;</p> <p>Uncertainty related to the unfamiliar concepts associated with the BRI, e.g.: “globalization 4.0”, “south-south cooperation”, “new regional order and structure”.</p>
2019 A. Ito	<p>Japan-China cooperation existed before the BRI, e.g.: Japanese companies are among the tenants in an Indonesian industrial park built with Chinese government aid.</p> <p>After the BRI, Japanese business community needed a cooperative climate with China to secure contracts in the relevant infrastructure projects around the world;</p> <p>The three areas of the Japan-China joint project in the third countries are: energy conservation and environment protection, upgrading industrialization through building of industrial parks and power generation infrastructure, and the logistics sector;</p>	<p>Positive response could be triggered by a domestic factor – the elections for the House of Representatives in October 2017, and an external factor – the escalation of the nuclear problem in North Korea.</p> <p>Japanese government prepared enough risk-hedge architecture to be able to stabilize the advancement of Chinese power.</p>
2019 Y. Cheng, L. Song, L. Huang	<p>China-EU cooperation in knowledge-intensive and creative industries (Digital Silk Road – 5G);</p> <p>Central Asia is a highly attractive market for producers and investors in the EU, China, Russia, Japan, and other countries.</p>	<p>Tokyo remains reserved and concerned about the hidden strategic agenda of the BRI;</p> <p>The people-to-people dimension: academic and personnel exchanges, media and cultural cooperation.</p>
2019 J. Joshua	<p>The Quadrangle of East Asia: China, Japan, Korea and Russia: future geopolitical change may be expected as the economic potential for the four countries is considerable if they join their economic forces (investment potential in Siberia and Russia’s Far East);</p> <p>Closer regional economic integration can facilitate intraregional trade and outward-oriented economic development;</p> <p>Japan-China negotiations with regard to the Regional Comprehensive Economic Partnership (RCEP).</p>	<p>The Northern Sea Route (NSR), an alternative transit between North-Eastern Asia and Europe can connect Yokohama and Vladivostok with Rotterdam;</p> <p>The Russian Trans-Siberian Railways (TSR) can be extended to Tokyo through a rail link via North and South Korea. Japan could use the Russian TSR for its exports to and imports from Europe;</p> <p>A railway infrastructure could link Sakhalin in Russia with Hokkaido so that the BRI could be extended to Japan;</p> <p>The port of Zarubino in Russia gives China direct access to the Sea of Japan.</p> <p>(background issues: energy supplies, territorial disputes, Korea reunification, political rivalries vs. economic realities)</p>

<p>2019 H. Zhang, Y. Tang, T. Yi</p>	<p>China is steadily replacing Japan as the central node connecting advanced economies to those underdeveloped in Asia, Africa and Latin America;</p> <p>The world economy’s cycle has changed from a traditional “center-periphery” to a “double circulation” system with China as its hub: double circulation of global value chains.</p>	
<p>2020 K. Koga</p>	<p>Japan’s ‘soft’ infrastructure-building effort:</p> <p>PM Shinzo Abe launched Japan’s new strategic vision, ‘Free and Open Indo-Pacific’ (FOIP) strategy (2016), the primary objective of which is to shape and consolidate regional order in the Indo-Pacific on the basis of the existing rules-based international order (second pillar – economic prosperity),</p> <p>The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (to facilitate high-standard international trade frameworks in the region, 2018).</p>	<p>Prime Minister Shinzo Abe announced Partnership for Quality Infrastructure (2015) to mitigate a lack of financing for infrastructure development in the region (collaboration of the Japan Bank for International Cooperation, Japan International Cooperation Agency, Asian Development Bank and private sector enterprises);</p> <p>Japan shows political will to improve its relations with China and shape the latter’s behavior through engagement;</p> <p>Japan faces a real test of strength not only as a ‘leading promoter of rules’ but also a ‘leading new rule-maker’ in the Indo-Pacific.</p> <p>(background: shifts in the regional balance of power, particularly the rise of China and the relative decline of the United States)</p>
<p>2020 Y. Zhang</p>	<p>Japan is China’s early partner in third-party market cooperation:</p> <p>e.g.: China National Building Material and Japan’s Mitsubishi Corporation Vietnam’s Nghi Son Cement Corporation project (2007) and more than ten cooperation projects in third-party market countries at the same time;</p> <p>a memorandum of understanding (MOU) encouraging the enterprises of the two countries to jointly develop third-party markets (2008);</p> <p>MOU on third-party market cooperation was signed in 2018, establishing the China–Japan third-party market cooperation working mechanism and the China–Japan Third-Party Market Cooperation Forum.</p>	<p>Eastern Economic Corridor (EEC) of Thailand, railways, industrial parks, and smart cities;</p> <p>Japanese-Chinese cooperation on the International Corridor masterplan in West Africa;</p> <p>Japanese engagement in the BRI projects is under the condition that they are “open to use by all, procured through transparent and fair processes, economically viable, and causing no harm to debtor nation’s finance”.</p>

Source: author’s own elaboration.

Literature on the Belt and Road Initiative, which accounts for Japan’s prospect, confirms that the main factors that persuaded Tokyo to become a part of the initiative are the economic issues that involve Japanese business community, the already existing projects in Asia (Southeast Asia in particular) and the perspective of further economic opportunities in the region. It is also pointed out that the role of Abe’s Cabinet diplomatic concept of the Free and Open Indo-Pacific can be twofold: risk-hedging and complementary within the BRI. Among other issues raised, there are the infrastructure connectivity

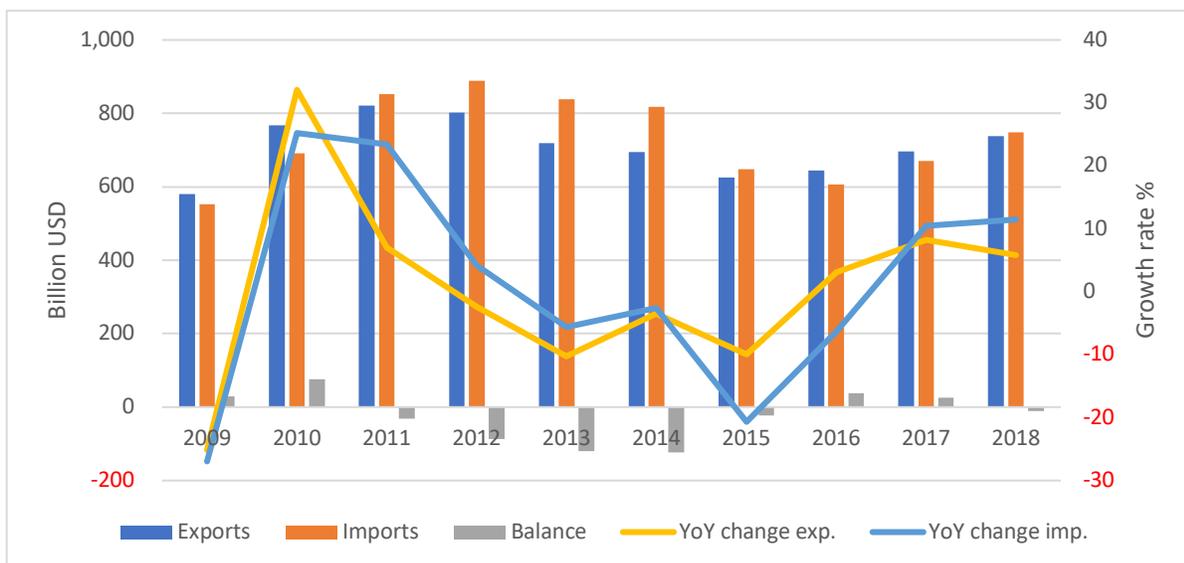
projects and the initiative’s hidden agenda which raises questions about BRI’s transparency and regional security and economic order.

4. AN OVERVIEW OF JAPAN’S FOREIGN TRADE

Japan was ranked as the 4th top global exporter and importer in merchandise trade in 2017. As far as the commercial services are concerned, the country occupied the 9th position as an exporter and the 8th place as an importer in 2017 globally. Japan’s current account balance and international trade as a ratio to GDP reached 4% for 2017, while the country’s share in the world’s total exports stood at 4%, and the share in global imports came to 3.7% (WTO, 2019).

During the past decade Japan witnessed the following developments that had an impact on the country’s foreign trade pattern. First, Japan experienced ups and downs in exports and imports growth rates around 2009 (See: Figure 2), caused mainly by the global financial crisis, which resulted in a negative trade balance between 2011 and 2015. At the same time Japan witnessed China playing an increasingly important role in the region and had to deal with the collapse of the Trans-Pacific Partnership (TPP) negotiations with the US.

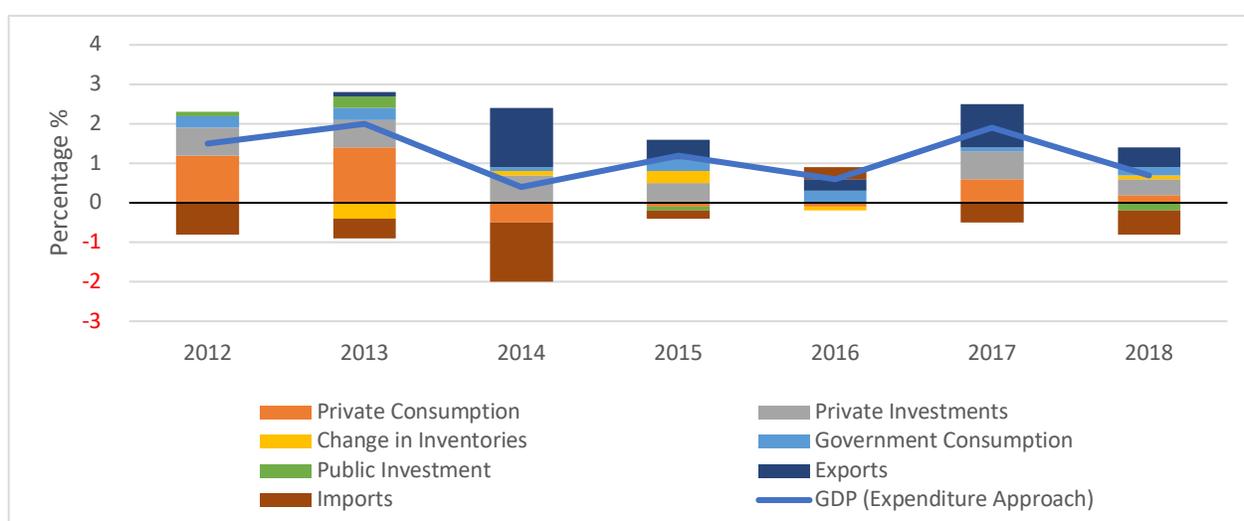
Figure 2. Japan’s total exports and imports, 2009–2018



Source: Author's own elaboration based on JETRO: <https://www.jetro.go.jp/en/reports/statistics/> accessed 10.12.2019.

On the other hand, Japan saw solid economic growth during the past few years, driven by three factors: exports, in particular during 2015–2017, private investments and consumption 2012–2013 and 2017–2018 (See: Figure 3 and Table 3).

Figure 3. GDP growth rate and contributions to annual percent change in GDP (expenditure approach), 2012-2018



Source: Author's own elaboration, Cabinet Office:

<https://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2018/qe184/gdemenua.html>, accessed 10.12.2019.

Table 3. GDP growth rate and contributions to annual percent change in GDP (expenditure approach), 2012-2018

	GDP	Private Consumption	Private Investments	Change in Inventories	Government Consumption	Public Investment	Net exports
2012	1.5	1.2	0.7	0	0.3	0.1	-0.8
2013	2	1.4	0.7	-0.4	0.3	0.3	-0.4
2014	0.4	-0.5	0.7	0.1	0.1	0	0
2015	1.2	-0.1	0.5	0.3	0.3	-0.1	0.4
2016	0.6	-0.1	0	-0.1	0.3	0	0.6
2017	1.9	0.6	0.7	0	0.1	0	0.6

2018	0.7	0.2	0.4	0.1	0.2	-0.2	0
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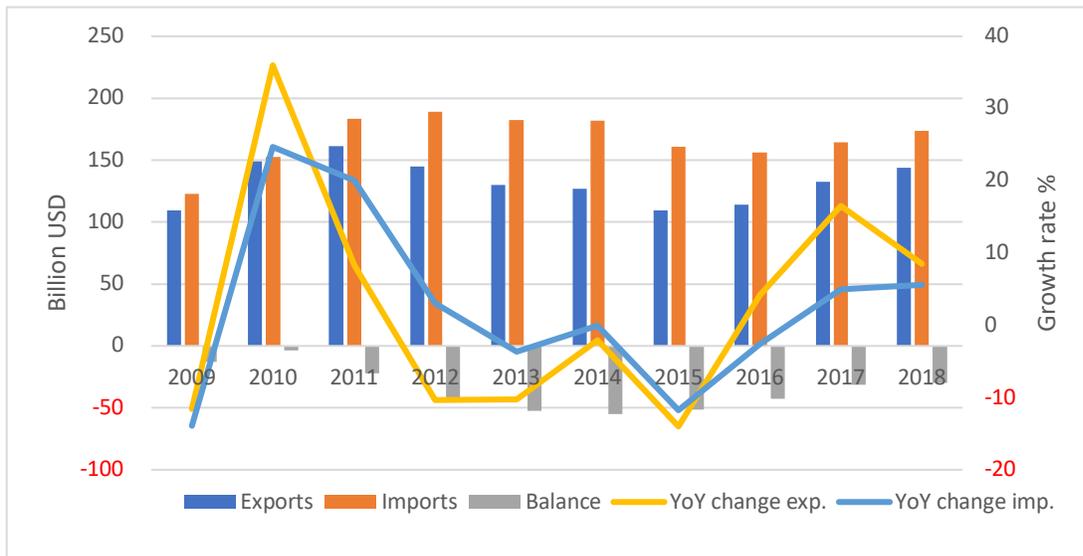
Source: Author’s own elaboration, Cabinet Office:

<https://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2018/qe184/gdemenua.html>, accessed 10.12.2019.

4.1. Japan’s Foreign Trade with Asia

In terms of value, Asia receives the largest amount of Japan’s foreign trade by region. In 2017 this share accounted for nearly 55% of the total Japanese exports. North America occupies the second position, while the third one is taken by Europe with shares of respectively 21% and 12% of the total Japanese exports in 2017. More precisely, the main foreign trade partners are the United States, China (See: Figure 4) and Korea, with the shares in total exports of 19.3%, 19% and almost 8% respectively. These countries are followed by Taiwan, Hong Kong, Thailand and Singapore. The principal commodities exported by Japan in 2017 were transport equipment (23% of the total value exports), machinery (20%) and electrical machinery (approx. 18%).

Figure 4. Japanese imports and exports to China 2009–2018, value and the growth rate



Source: Author’s own elaboration, JETRO: <https://www.jetro.go.jp/en/reports/statistics/>, accessed

10.12.2019.

At the same time, Asia covers approx. 49% of the total value of Japan’s imports, followed by Europe – 13% and North America – 12%. In 2017 China was the major partner for Japan with a share of 25% of the total value of imports. The other top partners were the United States – almost 11% and Australia – 6%. The principal commodities imported by Japan in 2017 were: mineral fuels (21% of the total value of Japan’s imports), electrical machinery (16%) and chemicals (10%).

According to Japan’s Ministry of Foreign Affairs, in 2017 Japan was China’s second largest export partner, just after the United States (with a share of 19.1%) and the second import partner (9.6% share), after South Korea (MOFA, 2018). During that time the major trade products were machinery and transport equipment (See: Table 4):

Table 4. Major trade goods exchanged between China and Japan in 2017

Exports			Imports		
1.	Machinery and transport equipment	48%	1.	Machinery and transport equipment	40%
2.	Light industrial products	16%	2.	Non-food and non-fuel raw materials	14%
3.	Chemical products	6%	3.	Mineral fuel	13%

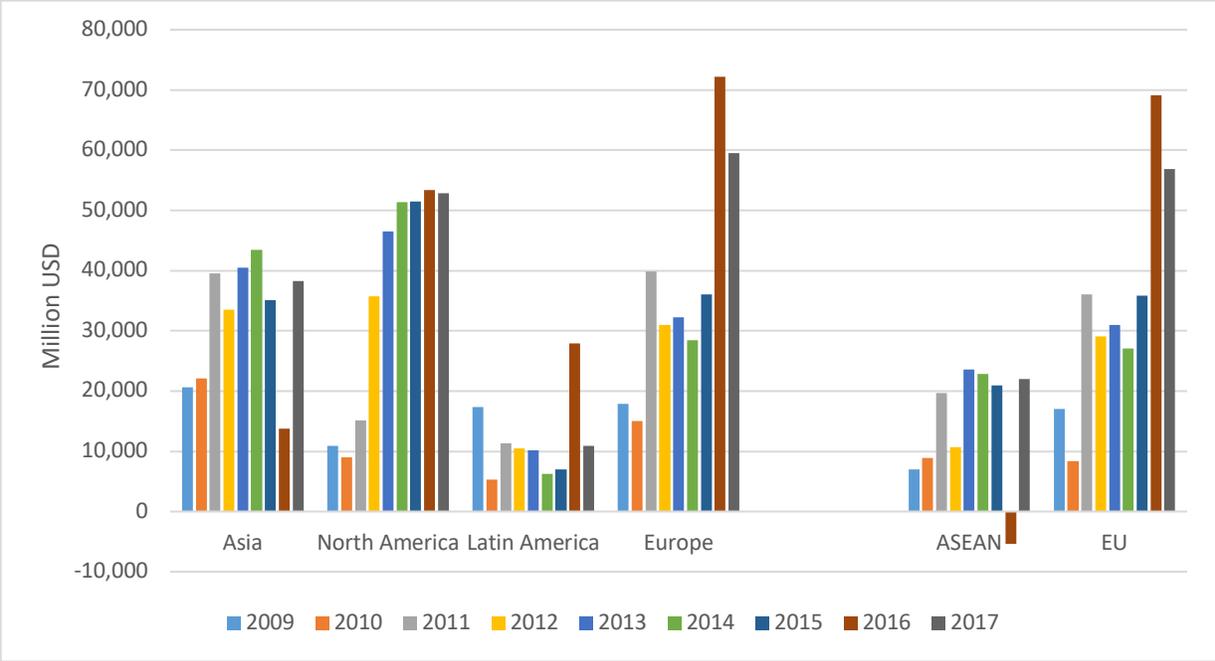
Source: Author’s own elaboration, <https://www.mofa.go.jp/mofaj/files/000007735.pdf>, accessed 10.12.2019.

5. FOREIGN DIRECT INVESTMENT

5.1. Outward FDI

According to the data by UNCTAD (2018), in 2017 Japan was ranked 2nd among the top 20 home economies with regard to outward FDI. The top three economies were led by the United States and closed with China, who came in 2nd in 2016. In 2017 Japan was reported to have invested USD 160 billion abroad (UNCTAD, 2018).

Figure 5. Japanese FDI by region (balance of payments basis, net flow), 2017



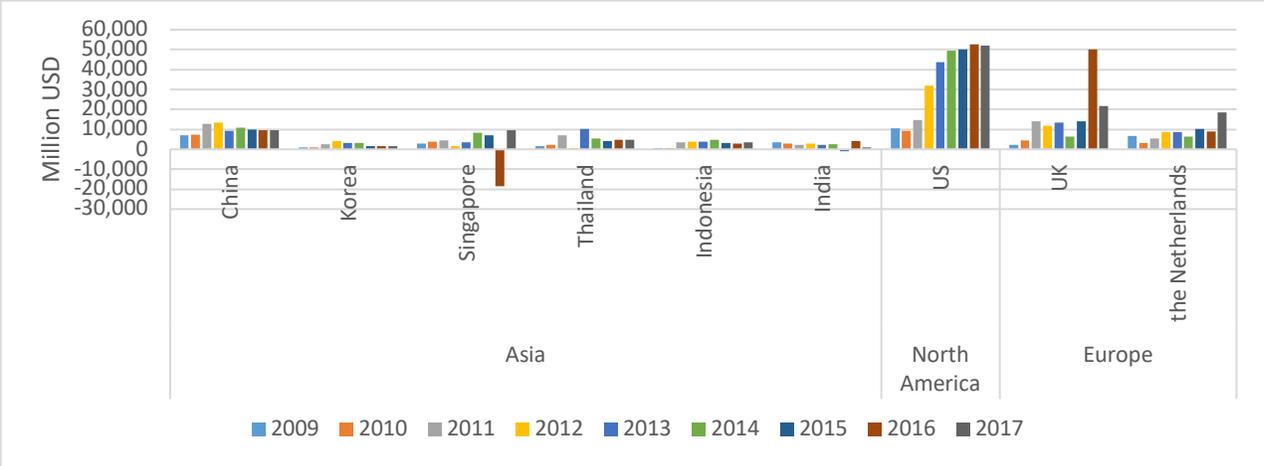
Source: Author’s own elaboration, JETRO: <https://www.jetro.go.jp/world/japan/stats/fdi.html>, accessed 08.07.2019.

The flow of Japanese FDI towards Asia represented approx. 26% of the total Japanese FDI in the period from 2009 to 2017, while ASEAN absorbed approx.12% of the total Japanese investments during the time in question (See: Figure 5). In 2016, there was a visible drop in the share of investment flows from Japan to Asia, in favor of Europe and Latin America. In that year Japanese FDI flows increased by almost 27% y-o-y.

As far as particular countries are concerned, China accounted for approx. 12% of the total Japanese FDI outflow in 2011, but then the percentage started to decline by almost 6 pp until 2017 (See: Figure 6).

Between 2012 and 2015 Japan’s outward FDI to the United States showed a sharp increase (of 117% y-o-y in 2012) and reached the level of up to 36% share of the total foreign investment outflow in 2015.

Figure 6. Japanese FDI by country (balance of payments basis, net flow), 2017



Source: Author’s own elaboration, JETRO: <https://www.jetro.go.jp/world/japan/stats/fdi.html>, accessed 08.07.2019.

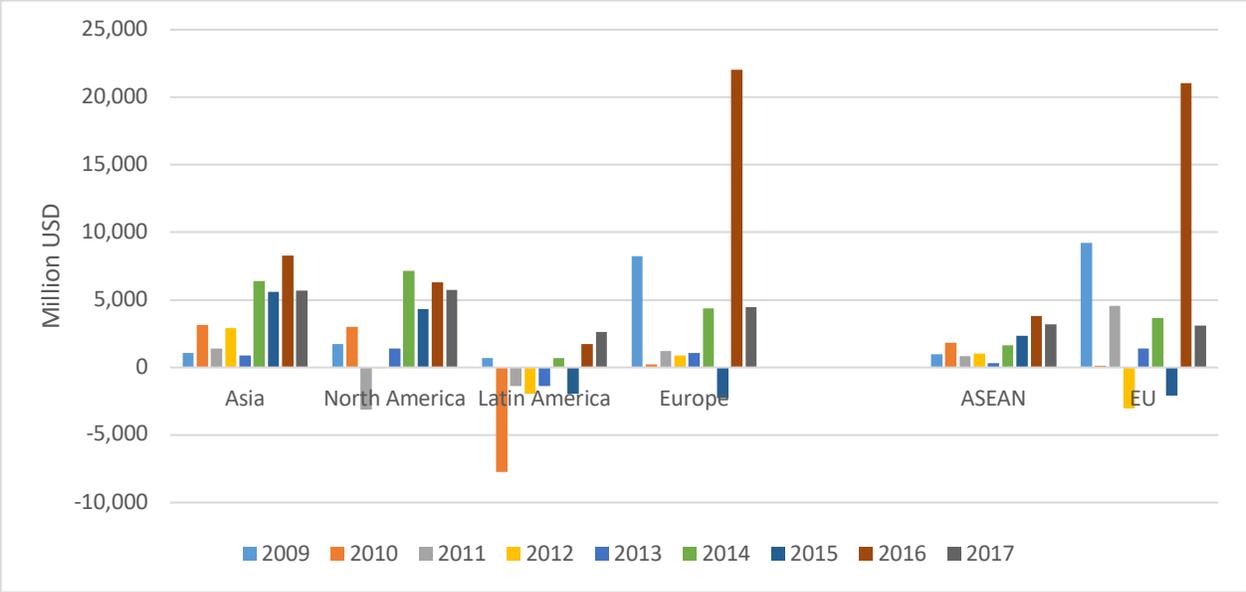
Data by UNCTAD (2018) shows that in 2016 Japan was the 4th largest, after China, Hong Kong and the United States, investor by FDI stock (USD 365 billion) in Developing Asia.

Moreover, although FDI flows remained stagnant throughout 2017, inflows to Southeast Asia increased by 11% (to USD 134 billion), mainly due to investments in ASEAN countries and an economic rebound in Indonesia. As reported by UNCTAD, the importance of intra-ASEAN investments increases, offering new opportunities for growth (UNCTAD, 2018).

5.2. Inward FDI

Over 40% of the total FDI inflow into Japan between 2009 and 2017 originated from Europe, while 32% from North America and 25% from Asia (See: Figure 7). In 2016 Japan saw a visibly high FDI inflow from Europe.

Figure 7. FDI inflow to Japan by region (balance of payments basis, net flow)

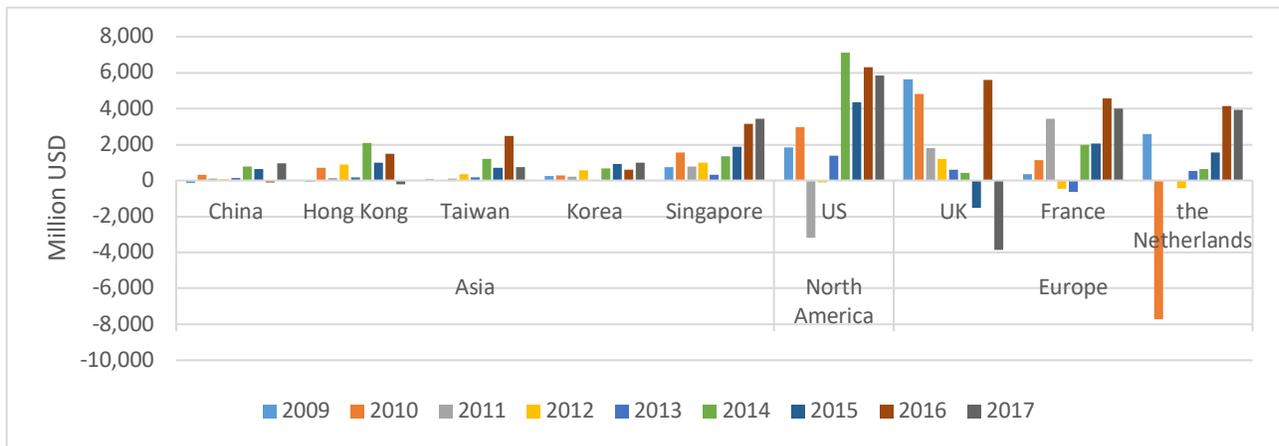


Source: Author’s own elaboration, JETRO: <https://www.jetro.go.jp/world/japan/stats/fdi.html>, accessed 08.07.2019.

However, it is worth noticing that in 2017 the scale of foreign investment inflow to Japan versus Japanese FDI outflow by region was: almost 7 times lower for Asia, nearly 9 times lower in case of North America and over 13 times lower for Europe.

Among Asian countries, the highest share of the FDI inflow between 2009 and 2017 was represented by Singapore – 15%, Taiwan and Hong-Kong had a 6% share each, while China stood at 3%. 28% of the total inward foreign investment during that time came from the United States, 17% from France and 15% from the United Kingdom (See: Figure 8).

Figure 8. FDI inflow to Japan by country (balance of payments basis, net flow), 2017



Source: Author's own elaboration, JETRO: <https://www.jetro.go.jp/world/japan/stats/fdi.html>, accessed 08.07.2019.

5.3. FDI Stock

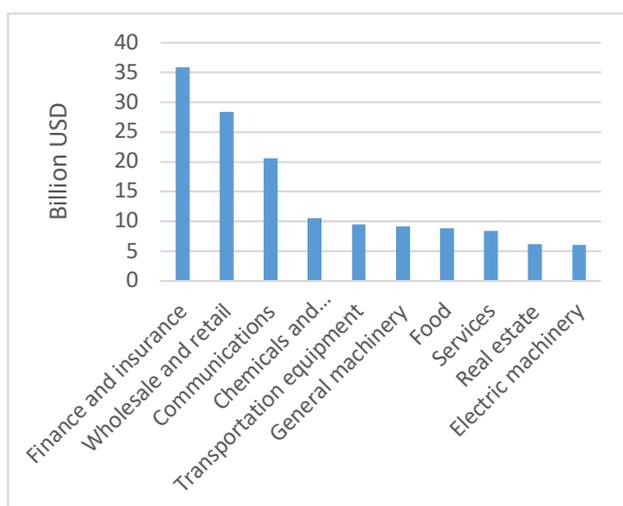
In terms of Japanese outward FDI stock, its share for Asian countries was at 28% in 2017 (an increase from 2009 by approx. 4 pp), while for North America and Europe it stood at 33% and 27% accordingly. From the perspective of particular countries, in 2017 the highest share of Japanese FDI stock in Asia was recorded for China – 8%, followed by Singapore and Thailand (both 4%). In North America, the United States dominated as a destination with a 32% share, in Europe the United Kingdom had 10% and the Netherlands 8%. The growth rate was the topmost for Singapore and India in Asia, Germany, Sweden, UK and France in Europe.

At the same time the highest inward FDI stock in Japan belonged to the United States, France, the Netherlands and Singapore.

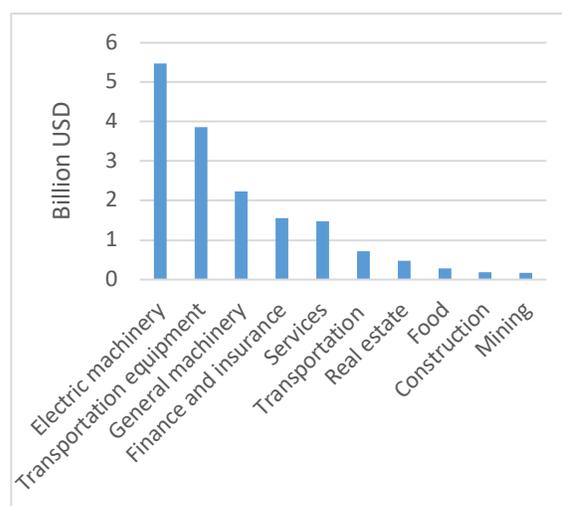
When analyzed by industry, the activity of Japanese firms abroad concentrated in finance and insurance, communications and transportation equipment sectors, while foreign companies in Japan operated mostly in electric machinery, transportation equipment and general machinery sectors (See: Figure 9).

Figure 9. Outward and inward FDI by industry, 2017

Outward FDI



Inward FDI



Source: Author's own elaboration, JETRO: <https://www.jetro.go.jp/en/reports/statistics/>, accessed 05.03.2019.

6. JAPAN AND THE INTERNATIONAL VALUE-ADDED FLOWS

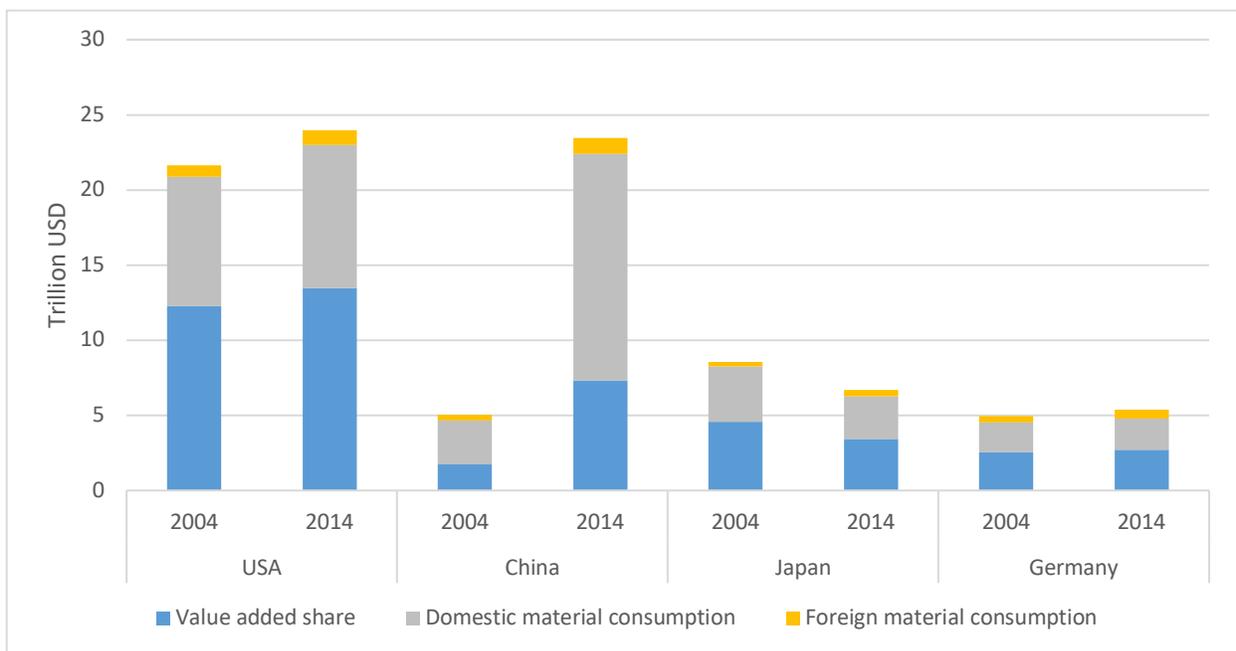
The aim of this section is to conduct an analysis of international value-added flows to give a more precise answer to the question about the role of Japan in the global trade and to identify the changes in the country's involvement in value circulation. The data used for calculation of the indicators given below comes from the World-Input-Output Database (WIOD) issued in November 2016 and cover the years from 2000 to 2014. The database describes 44 countries, including a model for the rest of the world, and 56 sectors (Timmer, Dietzenbacher, Los, Stehrer, de Vries, 2015; Timmer, Los, Stehrer, de Vries, 2016).

The first two indexes characterizing the so-called backward linkages and forward linkages are computed on the basis of primal World Input-Output Tables while the rest of the indicators: Foreign and Domestic Value Added (FVA, DVA), Foreign Final Goods (FFG) or Foreign Final Demand) FOR, are derived from the tables composed of value added. The methodology is based on Grodzicki and Geodecki (2016).

It can be observed that compared to 2004 Japan's global output in 2014 declined by 22%. According to the data by the OECD, industrial production in Japan measured as an index based on 2015 demonstrated

the highest values for the period between 2006 and 2008, preceded by relatively high values for 2004 and 2005. Two out of the three output components shown in the Figure 10 below, i.e. domestic material consumption (DMC) and value added decreased as well, domestic intensity shrank by 25% and VA by 24%. On the other hand, Japan increased the share of foreign material consumption in the total material consumption from 8% in 2004 to 15% in 2014. These changes in imports matched the global trends.

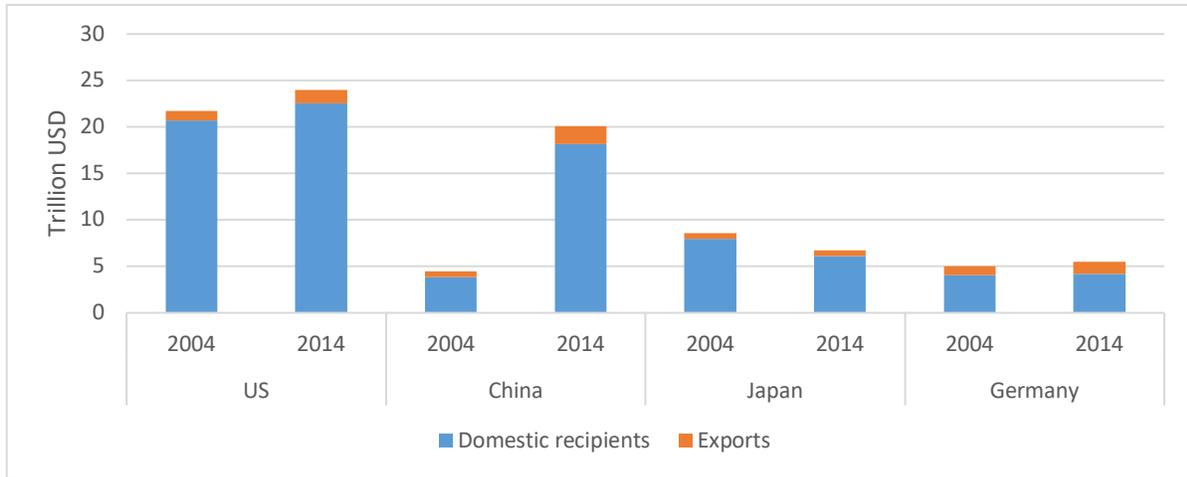
Figure 10. Backward linkages: Japan’s value-added share, domestic material consumption and foreign material consumption at the background of major economies (2004–2014, at 2004 prices)



Source: Author’s own elaboration and T. Geodecki’s computation based on the methodology developed by Grodzicki and Geodecki (2016).

As far as forward linkages are concerned, in 2014 Japan’s domestic recipients received an approx. 22% smaller share of global production than in 2004, although the share of global production of intermediate and final goods for exports grew by 3%. Moreover, between 2004 and 2014 exports from Japan grew by 23% while imports surged by 80% (See: Figure 11).

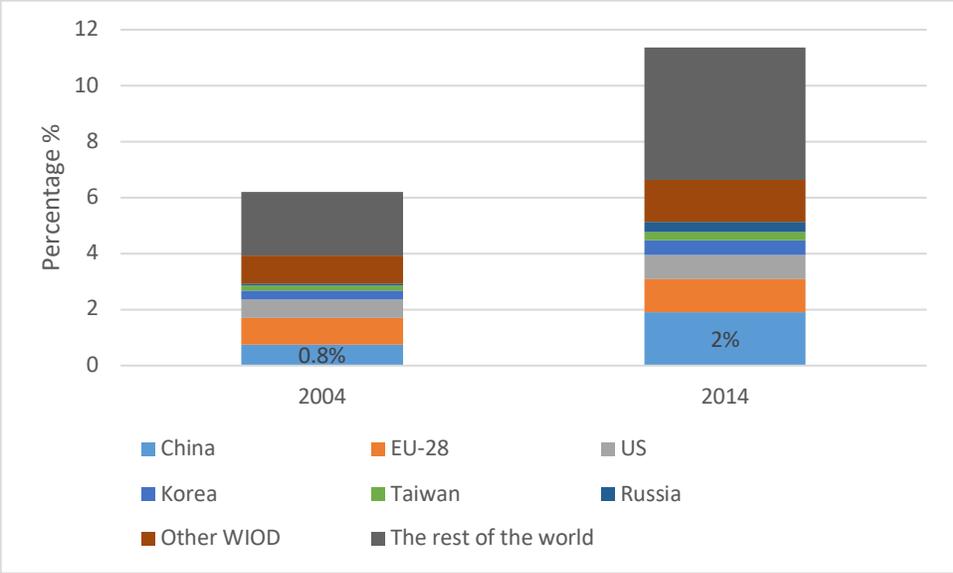
Figure 11. Forward linkages: recipients (domestic recipients and exports) of global production – major economies (at 2004 prices)



Source: Author’s own elaboration and T. Geodecki’s computation based on the methodology developed by Grodzicki and Geodecki (2016).

Compared to other major economies such as the United States, China or Germany, between 2004 and 2014 Japan had a record-low, albeit gradually increasing, foreign value added in final demand and exports. An analysis of data by WIOD (See: Figure 12) shows that in 2004 Japan captured 94% of trade-generated value added at home. This value decreased to 89% in 2014 with an outlook for further declines. It is worth noticing that the share of China in Japan’s FVA expanded from 0.8% in 2004 to 2% in 2014.

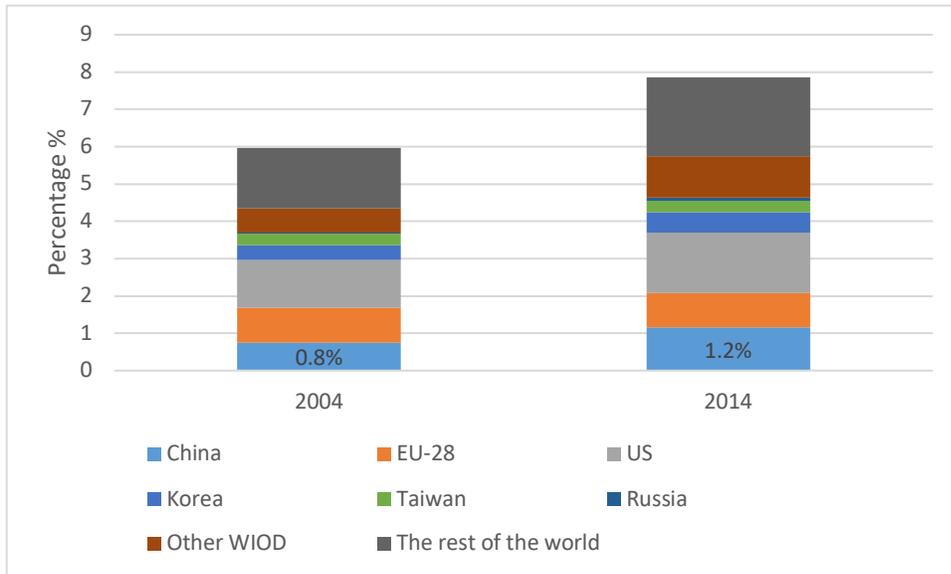
Figure 12. Foreign value added in Japan’s exports by country (2004 and 2014)



Source: Author’s own elaboration and T. Geodecki’s computation based on the methodology developed by Grodzicki and Geodecki (2016).

Foreign final goods (FFG) indicator, describing a country’s reliance on foreign manufacturers of final goods, showed a similar trend during that time. In case of Japan the indicator grew from 6% in 2004 to 8% in 2014, staying still at low level when compared to Germany – 18% or China – 13%. Another indicator allowing for more precise identification of a country’s role in GVC is domestic VA embodied in foreign final demand – FOR. Japan saw a growth of this indicator from 11% in 2004 to 13% in 2014, which explains that approx. 13% of the country’s domestic value added in 2014 was driven by the demand from abroad. Furthermore, the analysis proves that Japan increases its economic reliance on exports gradually with the share of China among the recipients of Japan’s DVA embodied in foreign final demand growing, from 0.8% in 2004 to 1.2% in 2014 (See: Figure 13).

Figure 13. Structure of recipients of Japan’s domestic value added embodied in foreign final demand by country (2004 and 2014)



Source: Author's own elaboration and T. Geodecki's computation based on the methodology developed by Grodzicki and Geodecki (2016).

As the newest UNCTAD's report on investments shows, growth in global value chains remained flat in 2017. The report points to the fact that foreign value added in international trade reached its peak in the 2010–2012 period, after twenty years of gradual growth. Moreover, the report reveals that the increase in GVC participation was less dynamic during that decade, compared to the one before, for all regions - both developed and developing (UNCTAD, 2018).

The analysis of the structure of foreign value added by sectors in Japan helps to identify the industries with the highest FVA in exports in 2014. These are:

- 1) manufacture of coke and refined petroleum products – 51%,
- 2) mining and quarrying – 44%,
- 3) electricity, gas, steam and air conditioning supply – 37%.

The largest shares of the Chinese value added in Japan's exports in 2014 were found in the following industries:

- 1) 7.3% in manufacture of electrical equipment,

- 2) 7.2% in manufacture of computer, electronic and optical products, and
- 3) 6.4% in wholesale and retail trade and repair of motor vehicles and motorcycles (Industries in WIOD). The sectors listed above matches the Japan's largest export industries.

In 2014 the highest values of Japan's DVA were found for the following industries:

- 1) 5% in manufacture of chemicals and chemical products,
- 2) 4% in water transport,
- 3) 4% in manufacture of basic metals.

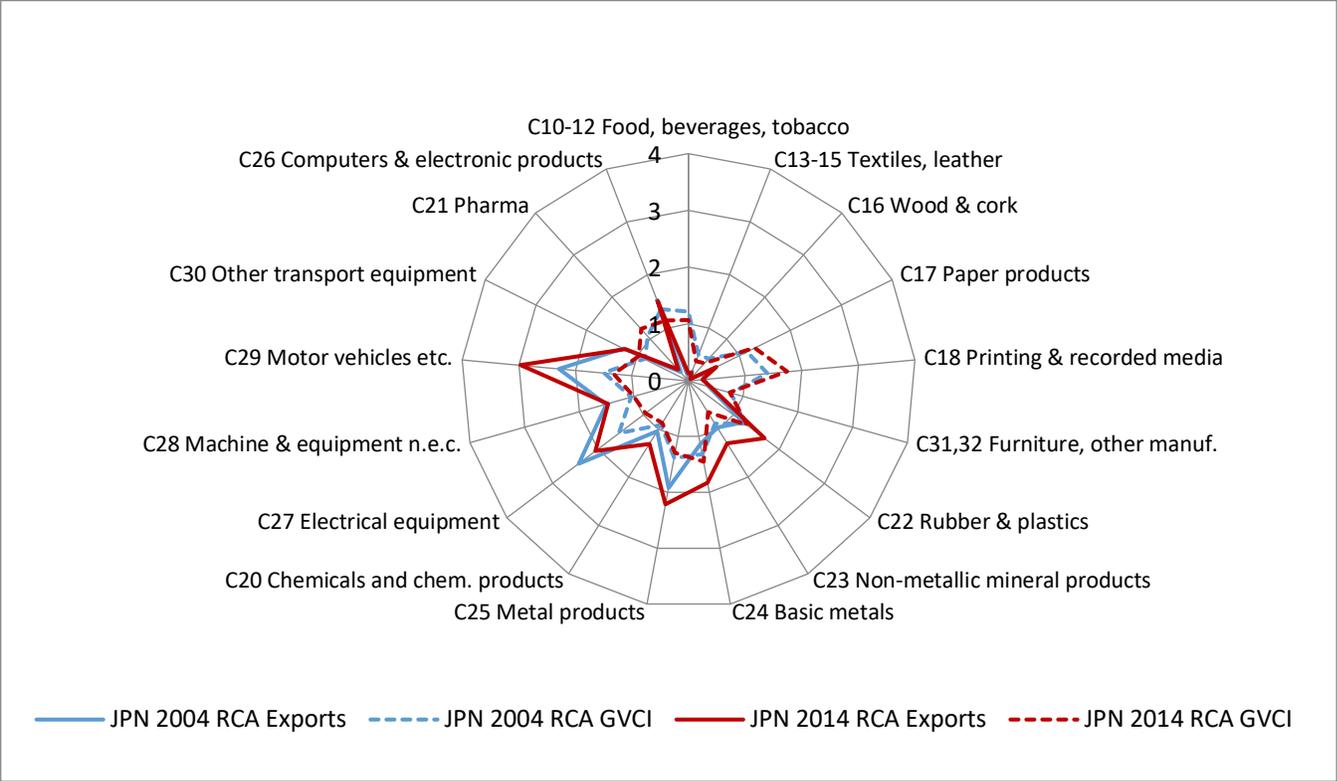
Moreover, if Chinese recipients of Japanese DVA are traced, industries appear as follows:

- 1) manufacture of chemicals and chemical products,
- 2) manufacture of computer, electronic and optical products,
- 3) manufacture of electrical equipment (Industries in WIOD).

Furthermore, applying the aforementioned FVA, FFG and FOR indicators to the manufacturing industry in Japan, it can be observed that the all three indicators recorded considerable growth between 2004 and 2014: FVA from 11% to 21%, FFG from 16% to 23% and FOR from 28% to 37%. This trend may be interpreted as an increasing reliance of the Japanese economy on foreign demand.

Last but not least part of this section is an examination of Japan's revealed comparative advantage. The analysis is done by a comparison of RCA in exports and RCA based on GVC Income (GVCI) by industry (Grodzicki & Geodecki, 2016). On a radar plot below (See Figure 14) industries are arranged in a clockwise increasing spiral, from low-tech to high-tech.

Figure 14. Revealed Comparative Advantage in exports and GVC Income by industry (2004 and 2014)



Source: Author’s own elaboration and T. Geodecki’s computation based on the methodology developed by Grodzicki and Geodecki (2016).

Japan’s Revealed Comparative Advantage in exports improved most in medium-tech and high-tech industries such as: manufacture of rubber and plastic products, manufacture of basic metals and manufacture of motor vehicles, trailers and semi-trailers. During the time in question Japan’s RCA in exports decreased in manufacture of electrical equipment, manufacture of machinery and equipment n.e.c., manufacture of other transport equipment and manufacture of computer, electronic and optical products. These are also the industries for which Chinese FVA in exports was the highest. Nevertheless, in 2014 Japan showed an RCA in exports higher than 1 for all medium-tech and high-tech industries. In terms of RCA GVC, the country’s advantage developed most in printing and reproduction of recorded media, manufacture of basic pharmaceutical products and pharmaceutical preparations, and manufacture of paper and paper products but deteriorated in almost all other industries. The decline in domestic demand in Japan is perceived as one of the key reasons for this problem (Kiyota, 2017).

7. CONCLUSIONS

This study confirms that in terms of both foreign trade and FDI Japan is a major global player. Although the trade's growth rate was slowing down until 2015, a visible recovery of Japan's external trade can be traced from that year on. Likewise, from 2015 Japan's exports to China are growing faster than imports from that country, reducing the negative trade balance with China. Among other Asian countries, Taiwan, Hong Kong, Thailand and Singapore lead the group of Japanese trade partners in the region.

Subsequently, in 2017 Japan was the 4th largest investor in Developing Asia,

On the other hand, a closer look into Japan's participation in the GVC tells more about the country's linkages with its partners. The examination of the structure of Japan's global output in two perspectives of backward and forward linkages lead to the following conclusions: Japan became more reliant on imports and Japanese market faced diminishing domestic demand during the period from 2004 to 2014. With regard to the indicators that inform about the country's position in the GVC, FVA in Japan's exports showed a significant increase, together with China's input, followed by a slight growth of the value of the FFG and FOR indicators, suggesting that Japan's dependency on foreign recipients (including China) of final goods increased as well. The outcome of the sectoral analysis shows that all the mentioned processes mentioned were even more intensive in manufacturing industry. Finally, as far as the RCA index is concerned, Japan's Revealed Comparative Advantage in exports was mostly present in high-tech industries, however, the results imply that higher FVA share in the industry diminishes the value of its RCA in exports.

To conclude, participation in the Belt & Road Initiative, which could give Japan a broader access not only to Southeast Asia but also to Africa and Central Asia seems to be promising and viable. However, it needs to be stressed that Japan already has a well-established position in the region, playing a role of a major investor, importer and know-how and technology exporter.

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Project management enhancements through the concept of management of projects: Contributions from a Japanese manufacturing company

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Project management enhancements through the concept of management of projects: Contributions from a Japanese manufacturing company

ABSTRACT

This paper aims to demonstrate the differences between the practices of the western traditional project management frameworks as Project Management Book of Knowledge (PMBOK), International Project Management Association (IPMA), and Projects in Controlled Environments (Prince2), and the Japanese Project Management (JPM), under the optics regarding the management of projects.

Although so far less studied in academic literature, significant contributions can be derived from JPM to other project management practices. We collected data through a secondary database and interviews with executives responsible for the design and implementation phases projects regarding two large projects —“B-Project” and “G-Project” — performed in a Japanese manufacturing subsidiary established in Brazil. As a result, we concluded that this Brazilian subsidiary developed a distinct methodology derived from JPM, with particularities summarized in our study. Furthermore, we propose that JPM can enhance the traditional project management practices, mainly in areas as sustainable Supply Chain Management and consensual decision-making, focusing on the building of healthy relationships with clients and better alignment of projects with long-term corporate goals.

Keywords: Project management; Japanese project management; Management of projects; Western traditional project management.

INTRODUCTION

The adoption of project management frameworks by organizations has a double issue: envisaging a future undertaking and the act of making it happen through coordinated tasks. Mastery the unique and sometimes highly complex processes of a project implies the implementation of specific management techniques (Turner J. R., 2003). Even though it is possible to observe a global conception of this phenomenon, there is not a unified theory of project management (Cha, Newman, & Winch, 2018; Garel, 2013; Söderlund, 2004). This lack of a unified theory is exemplified in literature reviews performed by project management scholars (Elhameed, 2017; Garel, 2013; Kozak-Holland, 2011; Seymour & Hussein, 2014) did not mention JPM (Ohara & Asada, 2009), which is adherent to the context of Japanese companies.

Many researchers are investigating projects in academic literature as temporary organizations. However, the essence of a project, which aims to achieve a goal and a long-term mission in an organization, is frequently neglected (Morris, 2013; Packendorff, 1996; Turner & Müller, 2003). Some studies brought up this difference in project management perspective from effectiveness versus efficiency point of view (Brettel, Heinemann, Engelen & Neubauer, 2011; Martinsuo & Lehtonen, 2007; Miller & Lessard, 2001). An effective performance was associated with business goals, while efficiency was associated with project delivery on time, within the budget, and in scope, which means a narrower vision of project management.

In this context, project management achieved some academic progress. However, project management frameworks, which have an excessive task-execution-oriented approach, ignore operational benefits, organizational transformations, and long-term benefits for organizations (Cha et al., 2018; Gasik, 2011; Morris, 2013; Pinto & Winch, 2016). Based on these pieces of evidence, project management frameworks may be adapted or enhanced if there is something new or different in the way of how Japanese companies manage their projects. Therefore, we raised questions as follows. (i) Are project management frameworks adherent to the dynamics and practices of Japanese companies? (ii) Does the company develop its project management style or enhanced traditional frameworks to manage its projects?

The answers to these questions allow us to make several academic and practical contributions. First, we contribute to building a solid ground for companies aiming to achieve competitive advantages through project management. It is justified by the attempt of this study to contribute with the discussion about the results of a 'Project Management Body of Knowledge' adding knowledge to the literature that has been pointing out to the limitations of the iron triangle based on traditional project management frameworks (Atkinson, 1999; Badewi, 2016; Pollack, Helm & Adler, 2018; van der Hoorn & Whitty, 2015) and to the 'actuality' of project management (Cicmil, Williams, Thomas & Hodgson, 2006; Fortune & White, 2006). As Svejig and Andersen (2015) stated, we intend to rethink project management through the findings described in this study, observing that they are strongly related to the strategic planning characteristics applied to project management (Papke-Shields & Boyer-Wright, 2017), its governance, benefits, and project success (Musawir, Martins Serra, Zwikael & Ali, 2017). We considered them in a 'management of projects approach' that has the potential to enhance traditional frameworks.

Second, exploring the 'management of projects approach' in the theoretical framework section, contrasting with the traditional framework of project management and its limitations, leads us to the discussion of the efficiency *versus* the effectiveness of project management practices. While the former regards to the accomplishment of the project metrics, the latter is occupied with meeting corporate values and long-term vision. The Japanese concept of projects is strictly related to the effectiveness of project management practices having its roots on the idea of 'rigidly scripted but flexible and adaptable' management, providing relevant contributions to raise the performance of a project in organizations.

The introduction of these concepts is essential to analyze the information gathered through semi-structured interviews with executives from a Japanese company, which established two new manufacturing units in Brazil from 2011 to 2015. Although these executives are from the same Japanese company, they are based in different countries, have different nationalities, act in diverse organizational contexts and cultures, and have various project management levels of expertise. In the methods section, we describe the conduction of interviews with each executive, to capture the

perceptions of these professionals regarding JPM practices, in contrast with traditional western approaches.

Third, conclusions corroborate the existence of a national culture gap between Japanese and Western practices and the need for new project management approaches like ‘Management of projects’ (Morris, 2013). This new approach is closely related to the long-term objectives of the organization, implicating that further studies are recommended to explore the concepts in a broader cultural and organizational context. National culture gaps like ‘long-term orientation’ of Japanese management can co-exist with the ‘short-term orientation’ of western project management practices. It means that short-term thinking of western project management approaches can be adapted or merged with the long-term concept of Japanese management of projects, just as quality control cycle, which was adapted in TPS – Toyota Production System.

THEORETICAL FRAMEWORK

Conceptualizing the management of projects: limitations of the traditional project management frameworks

A project is a ‘temporary endeavor undertaken to create a unique product, service, or result. The temporary nature indicates that a project has a definite beginning and end.’ (PMI, 2017). Despite those formal definitions provided by traditional frameworks and the clear division of management areas for academic purposes, project management is not a depository of knowledge produced in other disciplines or fields. It has its organization, methodology, and concepts (Kozak-Holland, 2011). The description of methods and processes needed to successfully generate the required output within the agreed time, cost, and quality standard (Elhameed, 2017), also known as the iron triangle, which has known limitations (Atkinson, 1999; Badewi, 2016; Ebbesen & Hope, 2013).

Kerzner (1987) brings a set of factors to account for the success of projects, which may overcome the iron triangle concept. Pinto and Slevin (1987) add some new and similar concepts regarding the success of projects like project mission, top management support, project schedule and plan, client consultation, personnel recruitment – selection and training, technical tasks, and client acceptance.

Later, Fortune and White (2006) presented a more substantial list of factors, which go beyond the scope of the traditional frameworks. This list starts with support from senior management and specific, realistic objectives. It follows with a robust and detailed plan kept up to date, excellent communication-feedback, user-client involvement, skilled-suitably qualified team, and effective change management. Literature regarding the theme of national culture, which is not necessarily encapsulated in the project management literature, but strongly related to it, also discusses that different country contexts and cultural perceptions may lead to project failures. The Culture Compass™ proposed by Hofstede Insights (Hofstede Insights, 2019) corroborates with such differences. For example, the Country Comparison Tool, which presents a score from 0 (low) to 100 (high) for six dimensions of national culture, shows Japan with a score of 88 in the ‘long term orientation’ dimension while the United States’ rating is 26.

Based on the above lenses stated, it is possible to suggest that there is a gap between the success factors of a project and the response of traditional project management frameworks to those factors. In the same line, the failure of projects is accounted for the fact that companies are not capable of managing projects and programs distinctly. Program managers and project managers are differently educated, and deliverables and benefits are unequally presented (Walenta, 2016). Those limitations need to be explored to improve the management of projects and hence, the effectiveness of projects in the organizational context (Morris, 2013).

Efficiency vs. effectiveness: project management and management of projects

From 1994 to 1997, Cusumano and Nobeoka (1998) interviewed 335 professionals among managers and engineers at 17 automakers to study multi-project management in Japan. The study concluded that leading automakers had discovered a better way to develop products by moving beyond traditional project management concepts and approach the so-called *multi-project management*, which is close to the concept of portfolio and program management. In this context, the debate between studied companies was how to balance the optimal position for the individual project *versus* optimal position for the organization focusing on the following critical problem: how to replace products and expand product lines and, consequently, minimize development and production costs.

Cusumano and Nobeoka (1998) demonstrated that even Japanese companies, which excelled in manufacturing processes, could improve performance by linking product and organizational strategies in product development. By overlapping product development and project teams, and transferring platform from one project to another, engineering costs were reduced by 30 percent, and the cut lead-time of launching reduced by several months. The authors also considered companies that succeed in multi-project management more advanced in strategic thinking than those which are not capable of integrating project portfolio.

Integrating project management with corporate strategy was explored by Wheelwright and Clark (1992). The authors, focusing on customer needs and continuous improvement, suggested that it is not reasonable to achieve significant performance gains if participants of the supply chain are not aligned with the same goals, do not have similar values, and do not work closely and effectively on a long-term contract and partnership.

In this sense, Aoki and Wilhelm (2017), Carter and Rogers (2008), Seuring and Müller (2008), and Simpson and Power (2013) highlighted the importance of a sustainable supply chain management (SSCM) as a success factor for a company to obtain competitive costs, stable supply, and social performance. The integration of supply chain management and project studies can bring some insights necessary to ensure that operations will be coordinated adequately in temporary organizations managed by projects (Maylor, Meredith, Söderlund & Browning, 2018).

However, the traditional frameworks mask the characteristics and challenges of the various stages of the project development lifecycle. It has limitations regarding its interaction with the business environment, which includes strategy and finance, technology, organizational structure, supply chain, and procurement in the context of the organization, which is called by Morris (2013) as the 'front-end'.

Figure 1 summarizes this view of the traditional project management focusing on the iron triangle, respecting the usual project life cycle. In this approach, there is little integration with mission, vision, values, and post-delivery aspects. This low level of integration causes a weak linkage with the project mission and contributes to the high rates of failures in projects (Cookie-Davies, 2009; Rauniar &

Rawski, 2012), raising the question whether the project is potentially valuable to the intended user and their organization (Pinto & Mantel, 1990).

[INSERT FIGURE 1 HERE]

‘Management of projects’ (Morris, 2013), and not the project management, involves the definition and delivery of the project for stakeholder success become, indeed, an important goal. The project, program management (P2M), and Kaikaku Project Management (KPM) (Ohara & Asada, 2009) emphasize the concept of value creation and mission-oriented projects. This approach contrasts with the traditional view of project management frameworks introducing the ‘innovation management’ and ‘development and implementation management’ processes (Morris, 2013). These two areas require systematic thinking and post-delivery project concepts through the measurement of value creation, customer satisfaction, and continuous improvement.

Further concept designed by the KPM and management of project approaches is the ‘enhanced iron triangle’. Figure 2 represents our management of projects conceptual model based on P2M and KPM frameworks focusing on managing projects and value delivery. We represent innovation, development, and implementation management (from KPM), bringing an additional basis to the traditional project management framework. Mission, vision, values, and post-delivery phase are integrated within project management activities.

[INSERT FIGURE 2 HERE]

There are distinct peculiarities between these two approaches. The most striking one is related to the iron triangle, and Japanese approaches seemed to be more suitable to manage the Western view of cost-scope-time (and consequently, quality). These Japanese approaches can be seen in the case of total quality management (TQM) (Hackman & Wageman, 1995; Kannan & Tan, 2005; Ledbetter, 2018), just-in-time (JIT) concept (Ledbetter, 2018; Sugimori, Kusunoki, Cho, & Uchikawa, 1977) and

kaizen costing (Monden, 2000; Williamson, 1997) are better approaches to manage the iron triangle of projects. Features like innovation management, development, and implementation management (Ohara & Asada, 2009) and post-delivery do not appear in the traditional project management approach. Consequently, we consider in this study the conceptual definitions as follows.

Modifications to the traditional framework: revisiting the iron triangle

The traditional project management approach treats cost-scope-time (and consequently quality) aspects from the efficiency instead of an effectiveness point of view. In contrast, in an integrated organizational level point of view, project cost should be strictly connected to the cost of product development (Sani & Allahverdizadeh, 2012).

The project budget is not a given and static assumption managed by the project team, but a project input, which interacts with the entire process iteratively. Quality and time management of the project assumes the same characteristics. The management of projects approach strongly emphasizes using JIT management and TQM. Those aspects bring a unique philosophy rooted in the Japanese manufacturing industry, which is the backward operation process (or concurrent engineering system) securing the delivery with cost improvement, total quality, and just in time (Taketomi, 2009). Figure 3 shows the differences between both approaches. Management of projects considers project management as a part of the process that will interact with the purpose of product development. Therefore, project management is not the goal but a piece to achieve the goal.

[INSERT FIGURE 3 HERE]

The above target cost-quality-time method in the context of management of projects has several advantages if contrasted with the traditional approaches. For example, it provides a cost structure from the customer's point of view, incorporating a wide range of costs and life cycle phases and a critical component of product development teams and concurrent engineering. Targeting cost-quality-time is a method that considers financial, manufacturing, and customer aspects during the designing phase and helps firms in making product design decisions to increase the profit and the value of the company

(Morris, 2013). Thus, the main contribution of targeting costs, quality, and time to the Management of Projects is the creation of a collaborative and proactive atmosphere in which different department members get together to make decisions. Some authors like Sani and Allahverdizadeh (2012) consider this approach of targeting as ‘kaizen costing’.

Rigidly scripted but flexible and adaptable: the paradox of Japanese management of projects

Despite temporary and unique work, projects lie toward the novel and various end of the spectrum (Maylor et al., 2018). There will be changes from one to another in this continuum, but people working on them do not change as much and must be engaged in whatever kind of projects. When the focus is on human resources, a soft view of projects accepts their inherent complexities without trying to solve them as a set of linear problems (Maylor & Turner, 2017; Ramasesh & Browning, 2014). Instead, projects are viewed as complex systems that require resolution rather than the solution (Roth & Senge, 1996). Projects and people working on them are dynamic and encompass the strategic and tactical levels of companies moving beyond structural consideration to recognize the role of social capital (Amoako-Gyampah, Meredith & White-loyd, 2018).

Social capital, the workers, and their relationships are the core of the leading Japanese automakers (Liker, 2004). In the case of this study, understanding the management of projects approach requires a previous appreciation of a paradox regarding this system. The activities, connections, and production flow in the company’s system are rigidly scripted, yet enormously flexible and adaptable. As competition does not exclude cooperation, being rigid does not preclude being flexible. This system’s core rules consider how people work, connect, build up production lines, and improve. Employees are empowered and encouraged to resolve problems on their own, and there is a culture of continually promoting changes.

Consequently, it is the very rigidity of the operations that make the flexibility possible. That is because the company's operations are a continuous series of controlled experiments. Moreover, whenever the company defines a specification, it is establishing a hypothesis that is then tested through action. This approach — the scientific method—is not imposed on workers; it is ingrained in them. Moreover, it

stimulates them to engage in the kind of experimentation that is widely recognized as the cornerstone of a learning organization (Spear & Bowen, 1999).

Shared vision motivates employees to promote improvements that go beyond the minimum requirements of a production. The idea of being rigid in the prescriptions, but flexible in their implementations make space for improvements. This idea is an active feature of the leading Japanese companies and our project management approach. The motivation for improving surpasses the project itself.

Innovation management, development and implementation management, and post-delivery

Management of projects approach ponders new areas called innovation management and development and implementation management, which are vital areas supporting the concept. Figure 4 illustrates another view of the management of projects where both concepts play an essential role in the iterative process.

[INSERT FIGURE 4 HERE]

According to Ohara and Asada (2009), innovation management indicates breakthroughs by uniting all layers of a new combination of knowledge. In this context, managers should encourage the application of strategic thinking, challenging implicit and explicit missions, integrating projects with daily activities. Development and implementation are the challenges to enhance, expand, and acquire the latest knowledge and information to boost competitive advantage.

A distinctive feature, if contrasted to the traditional project management, is that the innovation management and the development and implementation activities relate to operations and routine work of the organization. They are also referring to the post-delivery activities, as previously represented in Figure 2. The post-delivery process is the key to assess the success of a project (Morris, 2013; Ohara & Asada, 2009).

Thus, the management of projects which deliver standardized processes has higher rates of success in the long-term (Morris, 2013). We believe that standard processes provide better frameworks for

ensuring continuous improvements (kaizen). Moreover, the structure of standardized processes helps organizations to disseminate best practices and save each new project from re-work and waste (Maylor et al., 2018). These ideas and theoretical framework stated in Figures 2 and 4 are the basis of our investigation in which projects managed by a Japanese subsidiary in Brazil will be confronted with the conventional project management approach.

METHODS

The goal of this investigation is to explore whether a Japanese manufacturing company developed a methodology for managing projects with the potential to enhance traditional frameworks. To verify this point, we examine primary data related to the projects: 'B-Project' and 'G-Project' developed by a Japanese manufacturing company from 2011 to 2015.

Our analysis reflects a detailed examination of the company's mid and long-term strategic planning map, considering relevant information to cover front-end and project execution practices. First, this research adopted a qualitative approach through a semi-structured interview with managers from Japan, Sweden, and Brazil, considering that this practice is one of the most important sources of information regarding case study research (Yin, 2013). These professionals were selected for the interview because they were leading teams with cultural and technical skills differences in Japan, Sweden, and Brazil, and most relevant, these three managers have distinct project management training backgrounds.

Project manager 'A' (PmA) is based in Japan. He has 24 years of professional experience as international project manager and product development for the company. At the time of the interview, he was the senior manager in charge of the New Product Planning and Launching Department. He was involved in the implementation of the B-Project and G-Project. Project manager 'B' (PmB) is based in Brazil. He has 23 years of professional experience in managing projects related to the implementation of business units in Latin America and participated in the B-Project and business evaluation phase of G-Project. Project manager 'C' (PmC) is also working in Brazil and participated in both projects. He

has 13 years of professional experience in managing projects related to the implementation of business units in Brazil and Europe as well as planning launchings in China.

We also interviewed an outsider to check some possible cultural issues or interpretations bias regarding the practices of managing projects. Project manager 'D' (PmD) is a Swedish engineer working in his home country. He has 18 years of working as an international project manager and product development for the Company's European operation and also for a German energy company. He managed new product launching in China, Brazil, and Sweden. He participated in the 'B-Project'. We built up five sections (Table 1) covering an extensive list of issues considered in the interviews and later in our management of projects approach.

[INSERT TABLE 1 HERE]

The respondents answered five broad questions (one from each section). On average, the interviews held on May 30th, June 2nd and 3rd, 2018, took two hours of interactions each, by using electronic means (telephone and video conference). The interviewer was the first author of this paper. After transcribing and coding the answers, the authors contrasted their mentioned practices with those recommended by the traditional frameworks. Based on the discrepancies between both practices, we indicate and discuss in this study, the disadvantages of traditional frameworks *vis-a-vis* the management of projects approach aforementioned in Figure 2.

The context: B-project and G-project

B-Project is related to implementing a greenfield manufacturing plant for industrial equipment in Brazil. From the project kick-off, it took 33 months to reach the mass production launching.

Concurrent engineering projects with other countries, as well as the strengthening of the Brazilian sales network and dealers aiming to absorb the new production, were carried out. An additional 24 months were spent on customer satisfaction analyses, warranty claims, quality issues, and market acceptance, before ultimately closing the project.

Based on the potential success case of 'B-Project', the subsidiary company in Brazil was challenged to introduce a European model of equipment designed and produced by a Swedish factory. This project,

called 'G-Project', had several constraints and challenges imposed by headquarters. First, to launch a production line with a minimal investment (USD 3 million) and time (10 months from business case approval to the start of production). Second, it was demanded to boost up the market share of this product line from 10 to 17 percent after two years of product launching. Third, there was also the need to compensate for the European subsidiary profitability by exporting CKD (completely knocked down) parts instead of CBU (complete built unities) to Brazil. Finally, another issue was to deal with the lack of human resources, especially in the engineering department, because local members were dedicated to close the previous B-Project.

Furthermore, it was the first time that a product conceptualized in Europe was introduced in a production line with the Japanese concept. From the first proposal until the business case approval, the project team consumed 20 months. This schedule also considered parallel projects and actions to strengthen the sales network to absorb the new product. B-Project and G-Project were auspicious meeting time, quality, and cost requirements from the traditional iron triangle concept. Both projects were able to meet the needs of the company's vision, mission, values, and mid-term planning and excelled in developing all post-delivery activities.

RESULTS

From idea formation to starting-up

Project managers interviewed for this study demonstrated a willingness and keen interest in answering the questions presented in Table 1. They considered them as an opportunity to share their views and experiences of working for years in the design and implementation of projects. As the questions found their expertise and knowledge of managing projects, they felt confident in contrasting the company's practices with those prescribed by the traditional frameworks. Following the issues classified in our six sections of Table 1, we present their answers and discuss the adherence of project management practices.

Considering the managers' participation in 'B-Project' and 'G-Project', their answers emphasized that the idea of formation must be based on the corporate mid-term vision. All departments are aware of

the strategic portfolio for the upcoming years, and one of them oversees and picks up a pre-approved project for initiation. According to PmA, *'project initiation is quite simple: every department and overseas subsidiaries are aware of the project portfolio because the mid-term plan was already prepared consensually, and strategic information from top management was already cascaded'*.

Feasibility study preparation, including risk distribution, project governance, and management of knowledge resources, are defined during the mid-term plan approval process. When putting forward the point of view of an overseas subsidiary, PmC mentioned that *'when the top management in charge of our subsidiary comes up with a project requested by the headquarters, we are not surprised. It occurs because we already oversaw the contribution of the subsidiary's project on the global mid-term plan'*.

This point is also emphasized by PmB that knew that eventually, the development of product 'X' or 'Y' would come. The person in charge of designing and managing this project is informed and prepared beforehand. In the same line, the Swedish PmD explained that *'projects that I am currently working on can be enhanced by the concept of publicizing the mid-term plan knowledge among team members. Traditional frameworks can explore this practice better'*.

All interviewed professionals seem to share the same idea, clearly stated by PmD, that *'Traditional frameworks adherence to the current company's project management approach is low or close to zero. We consider that the idea formation is a pre-condition of the project, not part of it'*. In the company's case, the idea formation process considers aspects like the relevance of the project to fulfill customers' and other stakeholders' satisfaction from an organization point of view (not only from project lens), leading to the following reflections: How the project can contribute to strengthening the bonds between the organization and the partners? How can this project encourage and challenge a pivotal supplier to improve its process? These questions are the core issues of this company's project management approach.

In this Japanese company approach, the project plan design and start-up follow the concept of 'gates' called 'project design review' (DR). There are 11 DR gates, having each a specific discussion content and judgment items that are the object of approval from top management. The project plan and design are composed of four gates which cover: merchandise planning review (DR0), product planning

review (DR1), preliminary design review (DR2-1), and detailed design review (DR2-2). Figure 5 illustrates the 11 gates, and Table 2 summarizes their contents, which are evaluated at each gate in the company's project management approach.

[INSERT FIGURE 5 HERE]

[INSERT TABLE 2 HERE]

Knowledge integration promotion occurs through steering meetings, and every department is invited to join. PmA emphasized this last point: *'employees from different departments, participating or not in the project, are encouraged to join the discussions as listeners if they wish. They can improve their repository of knowledge and, in the future, grasp solutions for issues raised in a project based on this acquired knowledge'*.

PmA also explained that the integrated control of the project, have more departments and people involved than usual practices. However, in the case of new product development projects, the quality assurance department (in the line organization) takes the leading position in the discussions. The role of middle management, such as department managers or group managers, is vital to link top management requirements with operational level possibilities. To him, *'if we consider the PDCA (Plan-Do-Check-Act) cycle, the P – Plan phase consumes more than 70% of the project lifecycle'*.

PmC stresses the importance of consensual management in their organization recapping that in the case of the B-Project, DR0 to DR2-2 were skipped because there was already a consensus among the affected areas (e.g., business planning, sales, and marketing) about the launching model. Therefore, they just made some adjustments in the cost and profit planning assumptions to obtain the approval of top management.

DR0 to DR2-2, when contrasted with a traditional framework, shares some similarities with quality management, but less advanced than the TQM, which is familiar in Japanese companies. The cost management area is entirely different and explicitly expressed by PmC: *'in our organization, we consider the product cost target as the key variable to be controlled and improved. Project*

management cost is inserted in the product cost target context. These activities were named by Sani and Allahverdizadeh (2012) as ‘Kaizen costs’, as we previously mentioned.

From these views, it seems possible to grasp that the planning phase of the company’s project management integration is more complex and demanding than the other frameworks. The frontier that separates the project organization from the functional organization is undefined. In these arrangements, it seems that consensual decisions are more natural to be reached by observing the organization and not just the project. In the case of this company, it explains why the Quality Assurance area takes the moderation role in product development projects. All the steps for managing projects developed by the company observe the Total Quality Management, as recommended by authors like Hackman & Wageman (1995), Kannan & Tan (2005) and Ledbetter (2018).

From implementing to closing

Implementation, execution, and control phases usually do not come as a great surprise because most of the risks and issues were covered during the planning phase. According to PmC, *‘every project is a detailed report. Communication methods are the most important aspects. B-Project smoothly ran because there was no doubt about the role of each member in the process. Every member knew what to do, when to do, and why to do it’*. These views of PmC reflect what Spear and Bowen (1999) had found when they were ‘Decoding the DNA of the Japanese company’s production system’ briefly mentioned as part of the relationships among different areas of our management of projects framework depicted in Figure 2.

PmD understands that *‘the DR concept may be misunderstood as a waterfall approach by many people because we struggle to advance with the execution if a certain requirement is not fulfilled’*. It may result in a lack of flexibility and agility in the development phase. However, *‘requirements were tailored by each project manager, and this weakens the standardization of practices and actions. Therefore, stakeholders’ management could be enhanced by the consensual DR gates system’*.

The acceptance, closing, and handover phase also present contrasting differences between the traditional project management and this company’s approach. The time required to accomplish this phase in this company’s case is more extended than traditionally prescribed practices: the closing of a

project occurs two years after the mass production launching of a new product. Project outcomes and project quality are evaluated based on the adherence to a corporate mid-term plan. Handover occurs when routine work is smoothly running (in the traditional framework handover takes place when the agreed product or service is delivered).

The interviewed managers see the DR8 (related to the closing and handover of a project) as essential for running the PDCA cycle in the management of projects' approach. PmB stated that *'traditional frameworks focus on operational aspects of the project (delivered on time, cost, quality, and scope). The DR8 gate focus on the value delivered to the organization, not to a limited number of stakeholders*. They also considered that the adherence to the traditional framework is low because the handover is not a simple closing process. When the company runs the DR8 gate, it carefully evaluates the accomplishment of cost target, profit, volume, market share, quality, warranty claims, and the implementation of countermeasures.

Thus, the connection of post-delivery outcomes with the planning process of upcoming projects is not very clear and robust in the traditional approaches. In this company's approach, the DR8 is directly connected to a set of DR0 (merchandise planning) in the portfolio of projects, providing essential inputs for the product planning process. Another aspect regards the evaluation of routine work as the consequence of project delivery. Traditional frameworks are not usually concerned with such evaluation because it is not within the scope of the project per definition.

PmD, who has formal training in the traditional European frameworks, mentioned that *'experiencing projects in this organization can be exhausting because prescribed procedures are extensive. For a western practice point of view, the volume of information produced, as well as the rules to be followed, could be time-wasting. However, what we realize is that JPM can save precious time in concurrent projects and daily operations (i.e., status meetings, daily meetings, alignment with stakeholders)'*.

As for training and education aspects, PmA, PmB, and PmC broadly have the same view. Like for Matsuo (2015) and Ohno (1988), 'on the job' training is the pillar to engage members of the project. This view seems to be shared in the works of scholars familiar with the Japanese industrial relations

like Hackman and Wageman (1995), Kannan and Tan (2005), Ledbetter (2018), Spear and Bowen (1999), and Waters-Fuller (1995).

Other aspects of the management of projects approach, like those of P2M and KPM, that are distinct from those prescribed by traditional frameworks can be summarized as follows: (i) Propose the best strategy option within the scope envelope that meets the program mission. (ii) Design the structural, functional, and behavioral architecture for the program within the limitations of the scheme business plan, systems context, and operations and maintenance service requirements. (iii) Design the human operating environment to perform and deliver as required: active, knowledge-oriented, supportive, good communications. (iv) Make decisions in sync with the external market, and embedded program and project drivers. (v) Perform multi-dimensional value management. (vi) Emphasize concurrent engineering, integrating product-design in all stages of a product's lifecycle from design to disposal. The managers consider that the company's way to manage projects stresses the importance of consensually opening the project objectives for discussion based on a mid-term plan. This interaction can be noticed in Figure 2, where 'innovation management' interacts with project management and company mission, vision, and values. Team members are encouraged to evaluate project constraint conditions and risks, which are then taken to a neutral department in the company. Based on that, guidelines describe procedures to phase out or suspend a project.

DISCUSSION

The evolution of project complexity requires the integration of project management studies with a variety of management tools, techniques, and knowledge (Morris, 2013). In particular, the Japanese management approach of projects has the potential to promote essential improvements in the traditional Western approaches. Drivers that shaped this field of knowledge in the 1980s by the North American Project Management Institute (PMI) were different from those in Japan in the 2000s, and it also contrasts from the contemporary management concepts (Morris, 2013). Therefore, such discipline needs to be less inward-looking and satisfactorily fit the external needs of the stakeholders.

Our study clearly shows that this company's project management is much closer to the management of projects approach. The company's experience and our approach can be useful to address some questions about the enhancement of traditional frameworks, as follows: (i) How to cover the front-end, which is critical in building-in value? (ii) How to escape from the iron triangle trap? (iii) Are project managers working to achieve effectiveness goals (value, business performance) or just delivering projects on time, within the budget, to scope, and on quality?

These questions became relevant in the current project management studies within the context of Asian and Western organizations. The research in project management had been evolving to a more integrated view with other disciplines, in line with the 'research direction implications for current project management research and practice' coined by Walker & Lloyd-Walker (2016). At the same time, Asian management practices as the Japanese management of projects, the consensual decision-making process, and the paradox concept of having a 'rigid operation, yet enormously flexible and adaptable', could be exported to the project management knowledge.

The practice is usually wiser than theory, and if we see what effective organizations in different cultures have done, we recognize that their leaders did adapt foreign management ideas to local cultural conditions (Hofstede, 1983, p.88). In this direction, the Japanese management style succeeded in taking over foreign management theories in an adapted form, leading to entirely new forms of practice, as the quality control cycle, adapted as PDCA cycle in the TPS system. In the same direction, the short-term thinking of western project management approaches can be modified or merged with the long-term concept of Japanese management of projects. Therefore, national culture gaps like 'long-term orientation' of Japanese management of projects can co-exist with 'short-term orientation' of Western project management practices and, otherwise, mismanaging cultural differences can lead successful managers and organizations to be ineffective and frustrated when working across cultures (Zwikael, Shimizu, & Globerson, 2005).

This research highlights the lack of an integrated view of the project in connection with the company's strategy in traditional western project management frameworks as PMBOK, IPMA, and Prince2 (Morris, 2013). In other words, an excess of effort put on the instrumental aspect of the project

management instead of in the companies' goals. Table 3 summarizes some relevant differences between those approaches.

[TABLE 3]

If this is true, is it time to rethink the project management activities with a broader scope than the one previously thought by the American founders of PMI? For the authors of this investigation, answering the above question bringing theories and experiences like the one we brought to the field of project management, will enrich the academic and the managerial areas involved with the effectiveness of their actions.

CONCLUSIONS, CONTRIBUTIONS, AND IMPLICATIONS

Synthesis and Conclusions

The purpose of this paper was to demonstrate the differences between the practices of the Western traditional project management frameworks and the Japanese Project Management (JPM), under the optics regarding the management of projects. The research methodology was based on a case study involving two projects. A qualitative approach was used through a semi-structured interview with managers from Japan, Sweden, and Brazil, who have distinct project management training backgrounds. The data were analyzed through content analysis applications, and results aimed to understand if project management frameworks are adherent to the dynamics and practices of Japanese companies and if an adapted practice could enhance traditional frameworks to manage its projects in different contexts.

The previous results presented, demonstrate that JPM is close to what Morris (2013) pointed out, and Figure 2 synthesizes, as *management of projects*. Our discussions and analysis establish that the Japanese way of managing projects is closer to our framework than the limited prescriptions of traditional western frameworks. In the two projects considered in our study, the interviewed managers stressed the importance of frequently revisit the mid-term plan, goals, objectives, and projects. Continually checking the mid-term plan contribute to the formation of a knowledge inventory and

avoids wastes (of time, money, and human resources), review risks, and discontinuation of a project based on an organization level point of view.

This Japanese company's way of managing projects is not unique. It seems to be closer to the 'Japanese Body of Knowledge' than other frameworks. The Japanese Body of Knowledge of P2M, upgraded by Kaikaku Project Management (KPM), clearly brings the concept of program management rooted in the management of projects and under the umbrella of efficient mission-oriented management. Besides, the Japanese approach considers program strategy, lifecycle, and value management.

The prescriptions of the traditional project management are firmly committed to operational areas, while the management of projects includes them in a broader perspective, profiling the project regarding a mission. This mission, in turn, may have explicit and implicit meanings experienced by the teams in learning by doing. The goal of the first approach is efficiency, while one of the second is effectiveness.

Contributions

From a practical point of view, results contribute to the idea that the Japanese management style succeeded in taking over foreign management theories in an adapted form, leading to new forms of management and tools, which is evident, for example, in the quality control tools but still underexplored in the project management field of knowledge. The incorporation of new knowledge in project management is fundamental because, as a social construct, project management needs to switch from a discipline seen as inward-looking and execution focused, to a more complex and integrative discipline capable to reply to social challenges. Thus, from a practical angle, the adaptation of Japanese project management practices to the traditional frameworks has the potential to improve the alignment of projects with long-term corporate vision through the improvement of what Morris (2013) called the 'Fron-End' of the project.

Limitations and avenues for future research directions

In this study, our ability to identify the enhancement of a consolidated management practice such as project management through Japanese management has been limited by our research sources. Even considering two strategically relevant projects delivered in a major Japanese company and considering that sometimes four very in-depth interviews may be sufficient, results may not allow a generalization, requiring amplification of the sample covering companies with different management maturity levels or even internationalization levels.

Concerning the project management community, despite their research has already for quite long understood that the iron triangle is an insufficient way to assess success, research is not discussing practices in much more elaborate ways. Therefore, as a conceptual paper, further studies are suggested as follows. First, enlarge the field of study in comparing the Japanese approach with several Western frameworks like PMBOK, IPMA, and Prince 2. Second, quantitative research should be conducted to understand the project management practices in other organizations in comparison with the Japanese approach. Finally, the concept of corporate mission, vision, and values, and also the consumer satisfaction discussed on project post-delivery area, needs to be explored more in-depth as those concepts can widely vary according to the national culture, industry, and supplied product or service.

APPENDIX

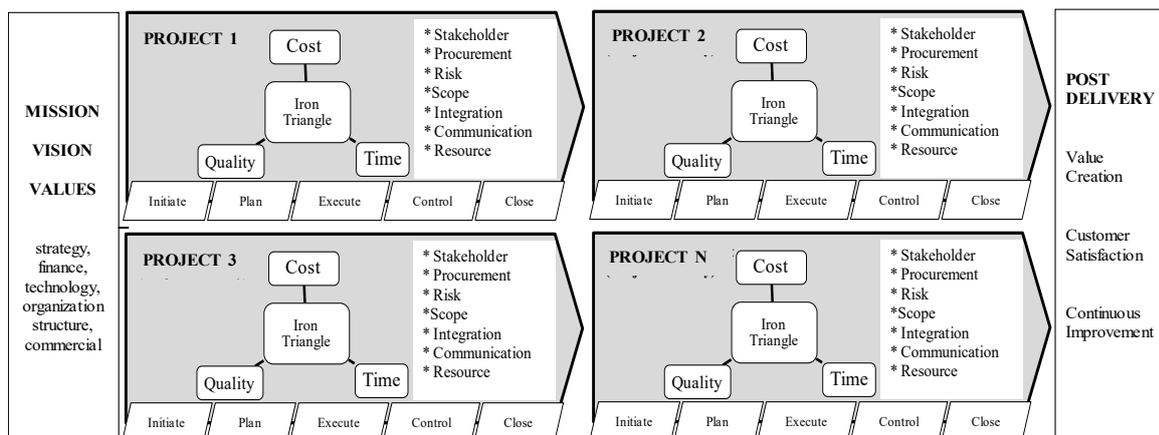


Fig. 1. Traditional project management view. Source: The authors.

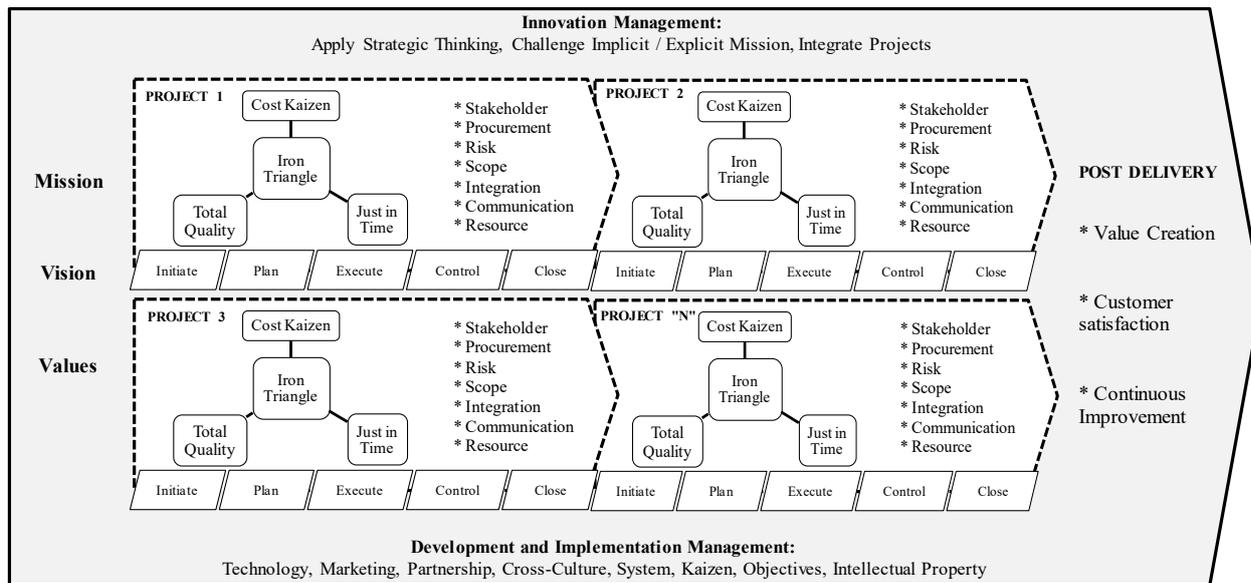


Fig. 2. Management of Projects (value delivery). Source: The authors.

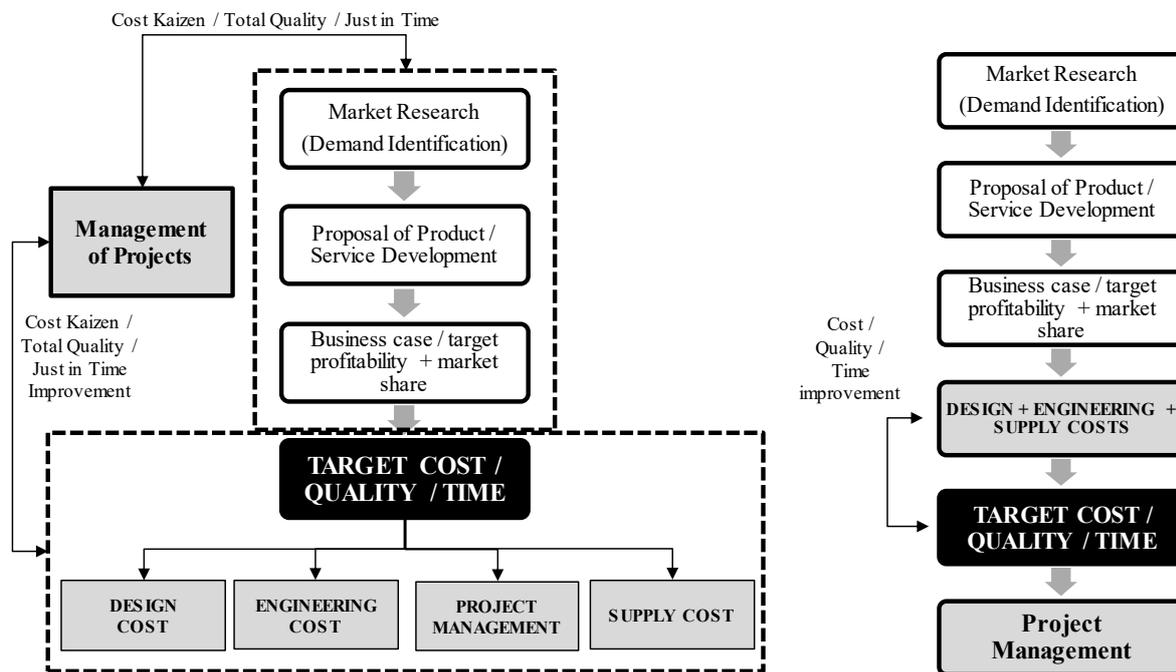


Fig. 3. Iron triangle in the Management of Projects and Project Management approaches. Source: The authors.

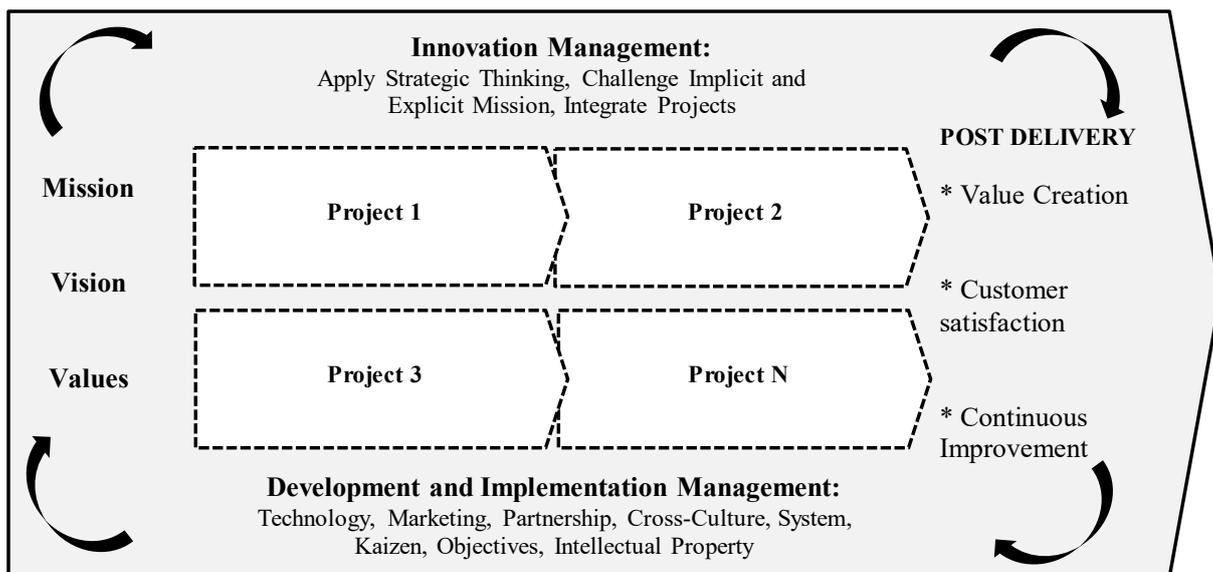


Fig. 4. Innovation Management and Development and Implementation Management areas iterative process. Source: The authors.

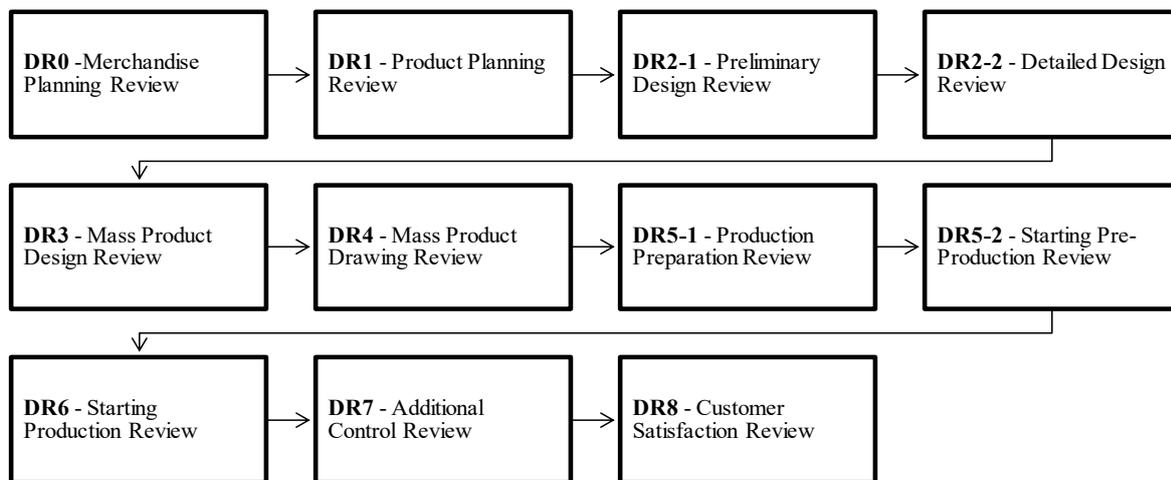


Fig. 5. The flow of DR gates. Source: The authors.

Section	Description	Explored themes
Section 1	Idea formation and initiation	Set short and long-term targets. Action plan building. Conceptual plan to build a feasibility study. Establishing rules for risk distribution. Managing knowledge resources. Systematic scheme for management.
Section 2	Project plan, design, and start-up	Scheme to visualize project objectives. Daily communication. Scheme of integrated control of project variables. Tools to encourage the integration of new knowledge.
Section 3	Implementation, execution, and control	Teamwork enhancement practices. Target management. Concurrent engineering method. Value creation activities tools. Innovation practice through implementation. Encouraging continuous improvement. Bridge cultural differences.
Section 4	Acceptance and handover	Reflection activity beyond lessons learned. Possessing long-term partnerships. Realization of stakeholders' satisfaction – short and long-term effects. Routine work design and effectiveness based on knowledge management.
Section 5	General practice applied to all phases	Cross-departmental processes. Encourage lifelong employment. Continual training and education. The consensual direction of project objectives. Constant evaluation of constraint conditions and risks. Voice out problem-solving ideas.

Table 1. Sections of the Project Management approach used as a basis for semi-structured interviews. Source: The authors

DR	What is evaluated? What is the critical point?	Who is in charge of presenting?	Who is in charge of evaluating?
DR0	What is the positioning of the products from the company strategy point of view?	Sales and marketing Product research and planning Business Planning	Quality Assurance
DR1	Quality targets, how, and what to evaluate. Product engineering. Cost target.	Engineering / Suppliers Business Planning	Quality Assurance
DR2-1	Plan on how to produce. Plan the prototype. Cost target.	Engineering / Suppliers Business Planning	Quality Assurance
DR2-2	Testing method for quality, prototype specification, patent, and environmental certification.	Engineering / Suppliers Quality Assurance Business Planning	Production Control
DR3	Prototype evaluation results. Plan mass production.	Engineering Quality Assurance Business Planning	Production Control
DR4	<u>Validation</u> of mass production concept, sales, and service structure.	Engineering / Suppliers Service and Sales Business Planning	Quality Assurance
DR5-1	Implement the plan of the production line. Cost target	Production Control Sales and Service Engineering Quality Assurance Suppliers	Business Planning
DR5-2	Launch pattern, discontinuation plan. The production facility is ready to be implemented?	Production Control Quality Assurance Engineering Business Planning Suppliers	Engineering
DR6	Are we ready to start mass production?	Production Control Quality Assurance Engineering Business Planning Suppliers	Engineering
DR7	Check phase of each Key Performance Indicators for all departments	Production Control Quality Assurance Engineering Business Planning Suppliers	Engineering
DR8	Measure the satisfaction level of customers, stakeholders and engagement team	Product Research and Planning Sales and Marketing Quality Assurance Business Planning	Production Control

Table 2. DR summarized contents, what is presented, and who is in charge. Source: The authors.

Management Areas	Traditional Frameworks	Management of Projects
Cost	<ul style="list-style-type: none"> • Usually limited to project cost. • A project cost is analyzed from the project management point of view, not necessarily in line with the corporate budget. 	<ul style="list-style-type: none"> • Specific cost targets (of the project and the product) • The project cost is in the context of the product cost or corporate cost.
Integration and Communication	<ul style="list-style-type: none"> • More focus on deliverables and short-term results. 	<ul style="list-style-type: none"> • Focus not only on deliverables. Legacy and values added to the organization are also essential success factors.
Scope	<ul style="list-style-type: none"> • Any project member from the company's strategy point of view does not readily recognize the final product. 	<ul style="list-style-type: none"> • The final product is evident. Easier to foresee the targeted final product in the context of the organization.
Portfolio and Program	<ul style="list-style-type: none"> • Concurrent projects management are discussed in separate 	<ul style="list-style-type: none"> • Managing concurrent projects is an underlying assumption.
Quality	<ul style="list-style-type: none"> • Business case an underlying business analysis was treated in separate 	<ul style="list-style-type: none"> • Big design upfront. Solid business case preparation is an assumption.
Stakeholder and Time	<ul style="list-style-type: none"> • Do not consider front-end and post-delivery aspects 	<ul style="list-style-type: none"> • Project lifecycle goes from front-end to post-delivery

Table 3. Differences between traditional frameworks and Management of Projects approach. Source: The authors

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**The Role of Cultural Intelligence and Trust in Knowledge Transfer Effectiveness
from HQ to Subsidiaries: An empirical study of Japanese Expatriates in Thailand**

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Abstract

To be success in global market, Japanese multinational enterprises (MNEs) need to have talented workforces to leverage their core competencies across the countries while adapt business practices to fit with local business contexts. However, the cultural differences between Japanese expatriates and local employees may cause interpersonal conflicts in the workplace. Previous research found that this issue causes high stress and discomfort among co-workers and effect on expatriate performance and knowledge transfer effectiveness. This research has an objective to investigate the contribution of CQ to knowledge transfer effectiveness between HQ and subsidiaries through the lens of relational exchange theory.

CQ is another complementary form of emotional intelligence (EQ) complements cognitive intelligence (IQ) that can explain cultural adaptation with diversity and functioning in new cultural settings. Recently, researchers have considered CQ as predictors, with a particular interest in intercultural cooperation and collaboration, which in turn lead to effective knowledge transfer process between HQ and subsidiaries. Thus, the objectives of this research are 1) To investigate the causes and effects of Japanese expatriates' CQ, and 2) To explore local employees' perspectives and trust on Japanese expatriate managers at the subsidiaries.

Keywords: *Cultural intelligence, trust, expatriates, Japanese MNEs, Thailand*

1. Introduction

Knowledge transfer has been widely regarded as the key to multinational enterprise (MNEs) subsidiary survival in foreign markets (Buckley, Clegg & Wang, 2004). MNEs need to transfer knowledge and other competencies to overcome the “liabilities of foreignness” (Becerra & Santaló, 2003; Jensen & Szulanski, 2004). In particular, as knowledge supply in emerging economies is limited and institutions governing knowledge creation and transfer are also underdeveloped, knowledge transfer is particularly critical to MNEs’ subsidiaries (e.g., Luo & Peng, 1999; Lyles & Salk, 1996). Without effective knowledge transfer process, a MNE cannot replicate its knowledge-based advantage throughout its operations and help their foreign subsidiaries survive and gain a competitive advantage in the rapidly changing business environment. The challenges of knowledge transfer emerge from cultural differences between knowledge senders and receivers (Ang & Massingham, 2007). This is because significant cultural differences can weaken the ability to identify, transfer and implement potentially useful knowledge (Sirmon & Lane, 2004). Hence, cultural adjustment is a fundamental requirement for expatriates in all multinational organizations. Despite growing cross-cultural exchange, a small number of studies have thus far provided an insight into managerial skills which improve knowledge transfer effectiveness across different cultures.

Cultural intelligence (CQ) is another complementary form of emotional intelligence (EQ) complements cognitive intelligence (IQ) that can explain knowledge transfer process with diversity and functioning in new cultural settings (Ang & Inkpen, 2008). CQ is motivated by the practical reality of globalization in the workplace (Earley & Ang, 2003). Many studies have focused on determining the relationship between CQ and consequences that are important especially in International Business (IB), and there has been particular interest in expatriates’ CQ and its effects on adjustment, performance and general effectiveness during international assignments (Ott & Michailova, 2018). Recently, researchers have considered CQ as predictors, with a particular interest in intercultural cooperation and collaboration (i.e. Mor, Morris & Joh, 2013; Chua, Morris & Mor, 2012), which in turn lead to effective knowledge transfer process between HQ and subsidiaries. While several studies have investigated the effect of CQ on a wide range of managerial characteristics, e.g.

motivation (Caligiuri, 2014) and leadership (Raab, Ambos, & Tallman, 2014), the role of CQ in MNEs knowledge Transfer has not been sufficiently studied.

Thus, the objective of this study is to investigate the contribution of CQ to knowledge transfer effectiveness between HQ and subsidiaries through the lens of relational exchange theory. In particular, it is assumed that CQ can positively enhance the knowledge transfer effectiveness of firms through the mediating roles of affective-based and competence-based trust of local employees toward expatriates from HQ. The paper addresses CQ and relational exchange literature to explore knowledge transfer effectiveness of Japanese expatriates in Thailand that provides this study's context.

Large Japanese MNEs have established extensive production networks in Thai manufacturing sector. In addition, small and medium size Japanese firms have also built up strong footholds in Thailand with their own manufacturing affiliates, often following their major Japanese client firms to replicate existing supplier relationships (Belderbos & Zou, 2006). However, previous research indicates that Japanese expatriates often had conflicts with Thai employees due to cultural differences that led to negative outcomes (Darawong & Igel, 2012). Therefore, Thai manufacturing is a context relevant to our research questions where we can explore the role of CQ and trust between Japanese expatriates and local employees.

2. Literature review

2.1 Japanese management approach

It has long been recognized that Japanese expatriates act as the agents of their headquarters in order to facilitate the international transfer of managerial and technical knowledge (Gaur, Delios & Singh, 2007). Along with increased international business activities, however, some scholars argue that the traditional Japanese management model can impede local employees' commitment and contribution; it may limit local operations' autonomy (Watanabe, 1998). The traditional Japanese management affect organizational members' expectations, practices, and behavior. Precisely, previous studies show Japanese management system, including the seniority system, ethnocentric and centralized decision making, also affect management of subsidiaries (Abe, 2010; Oki, 2018). Especially, Japanese MNEs

tend to centralize decision-making authority in a headquarters or among Japanese expatriates (Bartlett & Ghoshal 1989). Although this ethnocentric management can achieve efficiency, it has disadvantages in terms of local adaptation. Therefore, some researchers criticize Japanese ethnocentric management practices and emphasize the importance of delegating decision-making authority to local employees (Legewie, 2002). Hence, it would be fruitful to investigate the role of CQ that may help Japanese expatriates build the relational bond with local employees and effect on positive outcomes of knowledge transfer.

2.2 Cultural intelligence (CQ)

According to Earley (2002), CQ is ‘a person’s capability for successful adaptation to new cultural settings, that is, for unfamiliar settings attributable to cultural context’. Individuals with high CQ are culturally competent, having a repertoire of cognitive, behavioral and motivational abilities to work effectively with members of different cultures and adapt to foreign environments (Earley & Ang, 2003). A person who is able to generate new interpretations and behavior in a culture where their learned cues and behaviors do not fit has high CQ. People with high CQ expect that misunderstandings will happen in other cultures and, as a result, they delay judgment of any situation until they accomplish understanding (Brislin, Worthley & Macnab, 2006). Ang, Van Dyne, Koh, Ng, Templer, Tay and Chandrasekar (2007) classified CQ into four dimensions:

First, cognitive CQ refers to knowledge of the norms, practices and conventions in different cultures acquired from education and personal experiences. This includes knowledge of the economic, legal and social systems of different cultures and subcultures and knowledge of basic frameworks of cultural values. Second, metacognitive CQ refers to mental processes that individuals use to acquire and understand cultural knowledge, including knowledge of and control over individual thought processes relating to culture. Relevant capabilities include planning, monitoring and revising mental models of cultural norms for multi-cultural teams. Those with high metacognitive CQ are consciously aware of others’ cultural preferences before and during interactions. Third, motivational CQ refers to the capability to direct attention and energy toward learning about and functioning in situations

characterized by cultural diversity. Those with high motivational CQ direct attention and energy toward cross-cultural situations based on intrinsic interest and confidence in their cross-cultural effectiveness. Forth, behavioral CQ refers to the capability to exhibit appropriate verbal and nonverbal actions when interacting with people from different cultures.

Scholars still have inconsistent views on the construct of CQ whether these four dimensions of CQ are distinct facets or together form overall CQ. In addition, a few studies have focused on the impact of CQ on specific abilities that can enhance relationships when interacting in cultural diverse settings (Ott & Michailova, 2018). For example, Chua et al. (2012) found that CQ enhances intercultural creative collaborations. In addition, Mor et al. (2013) confirmed the positive relationship between CQ and intercultural cooperation; while Bückler, Furrer, Poutsma and Buyens (2014) indicated that CQ can help reducing anxiety during cross-cultural interactions. Overall, these scholars demonstrate how CQ can be leveraged to benefit collaboration in cross-cultural environment. However, the explanation that how CQ can create collaboration environment between expatriates and local employees at the subsidiary level is still unclear. Hence, this research aims to reveal the mechanisms underline the link between CQ and cooperative behaviors in the context of intra-organization of MNE subsidiaries and in turn contribute to knowledge transfer effectiveness.

3. Hypothesis development

3.1 The relationship between CQ and Knowledge transfer effectiveness

The second topic concerns the roles of CQ on knowledge transfer effectiveness. The literature on the impact of CQ on performance and effectiveness reveals a complicated relationship between the variables, the importance of the individual facets of CQ, and the role of adjustment in this relationship. Chen, Lin & Sawangpattanakul (2011) demonstrates that CQ has a positive and significant direct impact on job performance and cross-cultural effectiveness. Bückler et al. (2014) also reveal a positive and significant relationship between CQ and communication effectiveness. It is expected that individual CQ will contribute to knowledge sharing effectiveness. First, when individuals have elaborate cultural schemas, they should have a more accurate understanding the

comprehensive of knowledge. Next, those with high metacognitive CQ know when and how to apply their cultural knowledge. They do not rely on habitual knowledge structures, but select from multiple knowledge structures depending on the context. They also know when to suspend judgment based on stereotypes and when to look for additional cues (Triandis, 2006). Accordingly, they have more accurate understanding of knowledge transfer process in situations characterized by cultural diversity. Those with high motivational CQ should have contribution to knowledge transfer effectiveness since they direct energy toward learning and adapt themselves to knowledge recipients, even when sender cues are confusing due to cultural differences (Stone-Romero, Stone & Salas, 2003). For example, persistence provides more opportunities to obtain feedback. Those with energy and persistence tend to practice new behaviors and, through practice, improve the knowledge transfer process. Finally, behavioral CQ should positively relate to knowledge transfer effectiveness. Those with high behavioral CQ adapt their verbal and nonverbal behaviors to meet the expectations of others. Consistent with this, Shaffer, Harrison, Gregersen, Black & Ferzandi (2006) demonstrate the positive effects of behavioral flexibility on cross-cultural performance. Combining the above arguments, we propose that each of the four dimensions of CQ should positively relate to knowledge transfer effectiveness. Therefore;

Hypothesis 1a: Cognitive CQ will relate positively to knowledge transfer effectiveness.

Hypothesis 2a: Metacognitive CQ will relate positively to knowledge transfer effectiveness.

Hypothesis 3a: Motivational CQ will relate positively to knowledge transfer effectiveness.

Hypothesis 4a: Behavioral CQ will relate positively to knowledge transfer effectiveness.

3.2 CQ and Trust-based relationship

High CQ enables the high quality of relationship among multi-cultural teams in many ways. Especially, when confronted with interpersonal difficulties, a high CQ team member is more capable of understanding, and reacting appropriately, to situations of conflict occurring because of cultural differences among team members (Early, 2002). CQ may be especially critical to collaborative

relationships because of its effects on communication quality and ultimately intercultural trust (Chua et al., 2012). Individuals from different cultures are likely to interpret and represent the same problem in different ways, according to the cultural knowledge and beliefs that they respectively hold. A recent study by Gertsen and Söderberg (2011) on intercultural collaboration highlighted that the ability to adjust and learn during communication across cultures helps build mutual understanding, respect, and trust. High quality interpersonal communication and trust are especially critical for creative collaboration because unlike noncreative collaboration that involves merely sharing labor to implement preconceived ideas, partners in creative collaboration constantly grapple with uncertainty and new ideas and thus can easily feel vulnerable (Diehl & Stroebe, 1987; Diehl & Stroebe, 1991; Rubenson & Runco, 1995). Effective interpersonal relationships smooth this difficult process. Initial evidence that cultural metacognition may promote intercultural creative collaboration comes from research by Crotty and Brett (2009). In a study of multicultural teams, these researchers found that team members with high CQ were more likely to report that their teams engaged in effective teamwork, suggesting effective intercultural creative collaboration.

3.3 The role of trust

Trust, as conceptualized by Mayer, Davis and Schoorman (1995), has received extensive empirical research support (Schoorman, Mayer, & Davis, 2007) and is predictive of important organizational outcomes (Colquitt, Scott, & LePine, 2007). The relationship quality between a foreign source and the recipient is particularly important in the context of knowledge transfers across countries (Pérez-Nordtvedt, Kedia, Datta & Rasheed, 2008). Previous research indicates that trusting relationships facilitate knowledge transfer (e.g. Dhanaraj, Lyles, Steensma & Tihanyi, 2004) since it allows for greater interaction, which, in turn, generates a ‘common language’ and superior communication between the source and the recipient and facilitates better understanding of the transferred knowledge (Reagans & McEvily, 2003). In addition, high relationship quality enhances comprehension because trust allows for greater openness and cooperation (Das & Teng, 1998). Relationship quality can also be expected to have a positive effect on the speed of cross-border knowledge transfer. Reagans and McEvily (2003) observed that the strength of ties between two

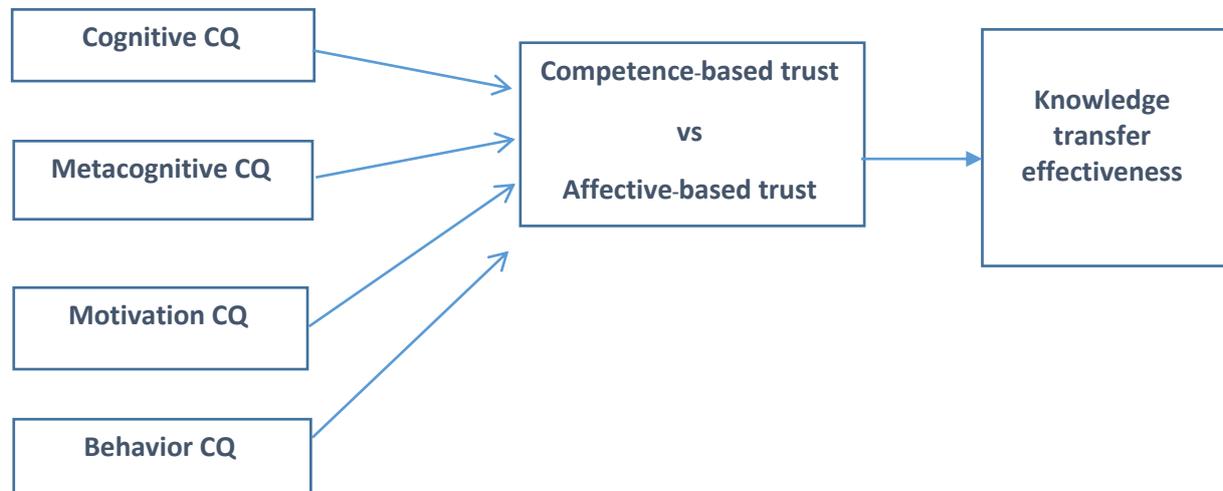
individuals impact the ease of knowledge transfer at the personal level, with close ties resulting in less time and effort being spent on the transfer process. Thus, in a situation where the relationship between the foreign source and the recipient is characterized by closeness and trust, we can anticipate effective knowledge transfer process.

Trust in another's competence should affect the perceived usefulness of knowledge received (Levin & Cross, 2004). Knowledge seekers who trust a source's competence to make suggestions and influence their thinking are more likely to listen to, absorb, and take action on that knowledge. People are likely to have greater trust in the competence of their strong ties for two reasons. First, as the two parties develop a strong tie, each calibrates on the other's true skills and expertise and so learns to seek advice in those domains in which the other person is competent (Rulke & Rau 2000). This narrowing process should increase trust, as restricting the domain of queries to the other party's area of expertise will lead to increasingly positive interactions. Second, trust-based relationship tends to develop common ways of thinking and communicating (Walker, 1985), and this type of shared cognition—e.g., common goals (Tsai & Ghoshal 1998), similar jargon (Levin, 1999)—is associated with greater trust. In sum, given the above arguments, a good relationship between the foreign source and the recipient contributes to more meaningful interactions between the two, resulting in a knowledge transfer characterized by greater comprehension and effectiveness. Thus:

Hypothesis 2a: Competence-based trust between the foreign source and the recipient is a mediator between CQ and Knowledge transfer effectiveness

Hypothesis 2b: Affective-based trust between the foreign source and the recipient is a mediator between CQ and Knowledge transfer effectiveness

Figure 1 Proposed conceptual framework



4. Research Methodology

4.1 The research population

The dataset has been generated through a questionnaire survey sent to expatriate managers of MNE subsidiaries in Thailand. The research population of Japanese MNE subsidiaries in the Thai manufacturing sector includes firms involved in the following areas: chemical and petrochemicals, machinery and transport equipment, electronics and electrical appliances, measuring and analytical instruments, optical apparatus and watches as well as medical instruments, and comprises approximately 800 companies listed in the Federation of Thai Industry (FTI) Directory for 2019. The specific respondents targeted with the questionnaire survey are the expatriate managers and Thai subordinates of Japanese MNE subsidiaries in the Thai manufacturing sector ‘identified from this reference list’. These managers and Thai subordinates are deemed to be the most knowledgeable about their firm’s relationships and company specific information. Approximately, the sample size of the research project will be 800 expatriate managers and 800 Thai subordinates (total 1,600 participants) from 800 Japanese MNE subsidiaries in the Thai manufacturing sector. Questionnaires will be distributed to all the eligible companies, rather than just a sample, because the population is small and it was believed that this is an effective way to achieve a high response rate.

This research uses web-based for data collection. Moreover, telephone contact will be used for pre-notification and recruiting respondents. The appearance of the survey web page is designed to match the paper and pencil survey allowing respondents to scroll through the entire instrument to see its length and the type of questions. Moreover, they can answer the questions in any order and complete the survey in several sessions. On-line definitions of the technical terms will be provided when the respondent click on a web-link.

4.2 Data collection administration

The researchers collect data in the field during the period from December 2019 – May 2020. In disseminating the survey, the researchers mostly follow the advice of Duncan (1979) regarding the appearance of the questionnaire and facilitating ease of use in order to boost the response rate. The survey package, both postal and web-based survey formats, includes:

- 1) Cover letter: An introductory letter explaining the objectives, assuring confidentiality and access to the samples as well as the specification of the deadline. The letter clearly explains the purpose of the questionnaire so that respondents could grasp its value, and the contact details of the researcher are provided (i.e. office address, telephone number and email address).
- 2) Two online-questionnaires on Google form, one each for the expatriate manager (first respondent) and Thai subordinate (second respondent).

The survey will be initiated by using telephone notification. Surveys will be mailed directly to HR managers who have the database of expatriate managers and Thai subordinates to select two representatives of their companies that fit our research screening criteria. Suitable first and second respondents will be identified during the telephone notification stage, which is also when they could choose to complete the questionnaires either on-line or by post. A cover letter explaining research, received either online or by post also contained a link to the survey website. Efforts will be made to enhance the response rate by sending a follow-up email to managers two weeks after the initial mailing and by offering respondents a composite summary of the study results.

5. Managerial implications

Our research findings will provide significant insights and implications for management practices of Japanese MNEs that have already or will establish a subsidiary in Thailand. Knowledge transfer requires close interaction between expatriate managers and local employees. This study is expected to show cultural literacy and high relationship quality between Japanese expatriate managers and local employees can help in knowledge transfer effectiveness. Japanese expatriate managers with cross-cultural awareness will likely have more success in understanding the needs and interests of local employees in the host countries. In addition, this research aims to provide a guideline for cultural training programs to help Japanese expatriates adjust to the host-country culture.

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