

**Case-study on the evolution of MNE subsidiaries in their  
local host environment:**

**An evolutionary analysis of Japanese MNE  
subsidiaries in the Northwing of the  
Randstad**

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Utrecht, November 2010**



**Universiteit Utrecht**

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## **Preface**

This document is the result of my final project in order to graduate; my thesis about the evolution of Japanese subsidiaries in the Northwing of the Randstad, the Netherlands. In the spring of this year the period had come to start with the end of my studies. A final literature and empirical research in the form of a thesis should prove that I am able to conduct scientific research.

The months that I have been working on this thesis have been a valuable period in which I have experienced how to conduct extensive scientific research, how perseverance is an indispensable characteristic in this process and how the help and openness of the people who either supported me or participated in my empirical research have contributed valuably to finalise this thesis. Without their support, motivation, feedback and assistance in getting in contact with key informants on the subject of this thesis, I could not have completed this work.

I would like to thank my supervisor in the first place, Leo van Grunsven, who has been an accurate and critical supervisor during the whole period of writing this thesis. He has motivated me to improve the research by spending considerable time to discuss with me my progress and initial drafts of my thesis. More than once I have revised parts of my thesis, so has he. Secondly, I would like to thank all interviewees who have taken time for and showed interest in the interview I conducted with them and in my research in general. Some of them were especially helpful in introducing me to other parties, relevant for my research. In particular, I would like to mention Wim van Gorcum of Yokogawa Europe B.V. and Christa de Kemp of Amsterdam in Business. I am also grateful to my friends who suggested names of companies and people for interviews. Finally, I would like to thank my parents, who have been critical about the English grammar and my writing style.

I am hoping that you will read this thesis with much interest and pleasure.

Isabé van Dorp  
November 2010

# Contents

<b>Executive summary .....</b>	<b>5</b>
<b>List of figures and tables .....</b>	<b>7</b>
<b>Glossary .....</b>	<b>8</b>
<b>1 Introduction .....</b>	<b>9</b>
1.1 Background .....	9
1.2 Aim and scope .....	10
1.3 Research questions .....	10
1.4 Research contribution .....	11
1.5 Thesis structure .....	11
<b>2 Literature review: Evolution of MNE subsidiaries from an International Business perspective .....</b>	<b>12</b>
2.1 Development paths of MNE subsidiaries .....	12
2.1.1 Capabilities and mandates .....	12
2.1.2 Different mandates and roles for MNE subsidiaries .....	14
2.2 Determinants for the evolution of MNE subsidiaries .....	19
2.2.1 Headquarter .....	19
2.2.2 Subsidiary .....	22
2.2.3 Environment .....	24
2.3 Criticism on the mainstream theory .....	26
<b>3 Filling the gaps of mainstream literature with an evolutionary approach ..</b>	<b>28</b>
3.1 Key concepts in an EEG approach.....	28
3.2 Focus on the local host environment combined with mainstream views .....	30
3.2.1 Routines and knowledge.....	31
3.2.2 Routines and embeddedness.....	32
3.3 Conceptual framework .....	33
3.4 Hypotheses .....	36
3.4.1 Making the concepts operational.....	37
<b>4 Data and methodology .....</b>	<b>40</b>
4.1 Data .....	40
4.1.1 Secondary data collection .....	40
4.1.2 Japanese MNE subsidiaries .....	40
4.1.3 The Northwing of the Randstad, the Netherlands .....	41
4.2 Methodology .....	42
4.2.1 Research designs.....	42
4.2.2 Methods .....	43
4.2.3 Selecting subsidiaries.....	44
4.3 Subsidiaries and key informants selected and contents of the interviews.....	44
4.3.1 Japanese MNE subsidiaries interviewed .....	44
4.3.2 Key informants interviewed .....	47
4.3.3 Contents of the in-depth interviews .....	47
4.4 Shortcomings .....	48
<b>5 The evolution of Japanese MNE subsidiaries in the Northwing of the Randstad .....</b>	<b>49</b>
5.1 Analysis of the database developed .....	49
5.2 Subsidiaries' analysis on Japanese subsidiary evolution.....	53
5.2.1 Characteristics of the subsidiaries interviewed.....	53
5.2.2 Actual evolution of Japanese subsidiaries in the Northwing .....	58
5.2.3 Determinants of Japanese subsidiary evolution in the Northwing .....	60

5.2.4	The role of the local environment in Japanese subsidiaries' evolution .....	67
5.3	Key informants' analysis on Japanese subsidiary evolution .....	69
5.3.1	Trends in subsidiary evolution .....	69
5.3.2	Trends in determinants for evolution.....	71
5.4	Analysis of the hypotheses .....	73
<b>6</b>	<b>Conclusion and recommendations .....</b>	<b>77</b>
6.1	Conclusion .....	77
6.2	Recommendations.....	80
	<b>References .....</b>	<b>82</b>
	<b>Appendix 1 - Geographical demarcation of the Northwing of the Randstad .....</b>	<b>85</b>
	<b>Appendix 2 - Information about the interviewees .....</b>	<b>86</b>
	<b>Appendix 3 - Interview questionnaire – Japanese subsidiaries (in Dutch) .....</b>	<b>87</b>
	<b>Appendix 4 - Interview questionnaire – Japanese subsidiaries (in English) .....</b>	<b>92</b>
	<b>Appendix 5 - Interview questionnaire– key informants (in Dutch).....</b>	<b>96</b>
	<b>Appendix 6 - Interview questionnaire– key informants (in English).....</b>	<b>98</b>

## Executive summary

This thesis explores how the evolution of Japanese MNE subsidiaries in their local host environment is characterised, by applying a case study research on Japanese subsidiaries located in the Northwing of the Randstad, the Netherlands. The thesis contributes to research on the long-term dynamics of MNE subsidiary evolution using an Evolutionary Economic Geography (EEG) approach. Moreover, Dutch policy strategies aim at the growth and retaining of foreign firms. Embeddedness in the local host environment is argued to be important. Therefore it is interesting to get insight in the actual development of Japanese subsidiaries in their local host environment. The following research question has been developed in order to address the objects of this thesis:

***How can the evolution of Japanese MNE subsidiaries in the Northwing of the Randstad be characterised and how is their development path influenced by the local host environment?***

Mainstream literature on subsidiary evolution, mainly derived from the field of international business, has been analysed. In mainstream literature evolution is described as a process of accumulation or reduction of resources and/or capabilities and the establishment or loss of mandates and/or roles in a subsidiary over time. The determinants of subsidiary evolution are aspects of the (1) HQ, (2) subsidiary, and (3) environment of the subsidiary. In mainstream literature, subsidiary evolution is described not very dynamically and minor attention is paid to the importance and support of the local host environment in the development of subsidiaries. Moreover, in the mainstream literature analysed, thorough explanations for different development paths lack.

Therefore, Evolutionary Economic Geography (EEG) is argued to be a useful addition to mainstream literature views on subsidiary evolution. From an EEG approach subsidiary evolution is described in a more dynamic manner, acknowledging the development of a subsidiary being dependent on changes in the local host environment. According to EEG, subsidiaries *co-evolve* with their local host environment; 'strategic couplings' are influenced by routines of subsidiaries on the one hand, and relational assets of the local host environment on the other. In turn, these strategic couplings, in the form of continuous and changing interactions, constitute certain routines, which influence decision made by subsidiaries and consequently, influencing their actual development.

A longitudinal design and a case study design have been applied for the empirical research in this thesis. The former consists of a database that has been developed for this thesis, providing data about all Japanese subsidiaries present in the Northwing in the period 2000-2009. The latter consists of in-depth, semi-structured interviews with eleven Japanese subsidiaries' directors and four key informants on the objects researched.

The findings present Japanese subsidiaries not to change much their main activities during their evolution. Mandates in terms of product and market scope generally increase over time, although Japanese subsidiaries do not specifically aim at increasing mandates. Examples of routines that are characteristic for Japanese subsidiaries are the decision-making system of *nemawashi* (long-term decision-making because overall consensus must be achieved), and a HQ's and subsidiary's strategy aimed at an increasing *local orientation*. The former indicates a substantial influence of the HQ on its subsidiaries. The latter indicates the local host environment to be important: local orientation aims at adapting to local market demands. When relational assets in the environment change due to economic developments, a continuous adaptation to the local (market)

circumstances is constituted. In order to optimise this process, policy strategies should respond to the upcoming focus of Japanese subsidiaries on local orientation by stimulating relationships between subsidiaries and external actors. Then, knowledge about local market circumstances can be exchanged, enabling subsidiaries to adapt and increasingly embed themselves in the local host environment. In the end, this will make Japanese subsidiaries increasingly innovative, which is lucrative for the economic position of the Northwing.

**List of figures and tables**

Figure 2.1 Subsidiary evolution as a function of capability and mandate (charter) change. ....14

Figure 2.2 Different paths of subsidiary roles. ....16

Figure 2.3 Development stages of subsidiaries .....18

Figure 2.4 Headquarter determinants.....19

Figure 2.5 Subsidiary level determinants .....22

Figure 2.6 Local host environment determinants .....25

Figure 3.1 Conceptual framework. ....35

Figure 4.1 The demarcation of the Northwing of the Randstad in the Netherlands.....42

Table 5.1 Changes in the number of Japanese subsidiaries located in the Netherlands in the period 2000-2009. ....49

Table 5.2 Analysis of the number of relocations within and to the Northwing in the period 2000-2009. ....50

Table 5.3 Analysis of the Japanese subsidiaries in the Northwing in terms of industry, main activity and period of establishment.....51

Figure 5.1 Concentration of Japanese subsidiaries in the Northwing in 2009. ....53



## Glossary

<b>ASN</b>	- Atrophy through Subsidiary Neglect
<b>EA</b>	- Europe Africa
<b>EEG</b>	- Evolutionary Economic Geography
<b>EMEA</b>	- Europe, Middle-East and Africa
<b>EU</b>	- European Union
<b>FDI</b>	- Foreign Direct Investment
<b>HQ</b>	- Headquarter
<b>IB</b>	- International Business
<b>JCC</b>	- Japanese Chamber of Commerce
<b>JETRO</b>	- Japan External Trade Organization
<b>KIBS</b>	- Knowledge Intensive Business Services
<b>KWE</b>	- Kintetsu World Express
<b>MNE</b>	- Multinational enterprise
<b>M&amp;S</b>	- Marketing & Sales
<b>PDD</b>	- Parent Driven Divestment
<b>PDI</b>	- Parent Driven Investment
<b>R&amp;D</b>	- Research & Development
<b>SDE</b>	- Subsidiary Driven mandate Extension
<b>SDR</b>	- Subsidiary Driven mandate Reinforcement
<b>SME</b>	- Small and medium-sized enterprise
<b>UK</b>	- United Kingdom
<b>USA</b>	- United States of America
<b>WPM</b>	- World Product Mandate
<b>YME</b>	- Yamaha Motor Europe

# 1 Introduction

## 1.1 Background

In the light of the increasing globalisation, foreign subsidiaries of multinational enterprises (MNEs) play an important role in today's economies. This is particularly the case in countries with a small and open economy, heavily depending on inward foreign direct investments (FDI). An example of such an economy is the Netherlands. More than 6000 affiliates of foreign firms in the Netherlands account for 600,000 jobs, which is more than 8% of the Dutch employment (Stec Groep, 2006). Furthermore, foreign firms bring in knowledge to the host country and contribute to the Dutch competitiveness and innovativeness (Wintjes, 2005). Regional development is a result of events at macro and micro levels; global firms' networks act as pipelines, pumping knowledge, capital and talent into regional economies while the micro level provides agglomeration externalities and supportive investment agencies (Bathelt & Glückler, 2003).

This thesis is about the evolution of MNE subsidiaries. The focus is on possible development paths and the determinants underlying these. In reality, the position of the subsidiary is complex and with that, is their development. On the one hand, subsidiaries take a central position in MNE activities, especially with regard to issues as sourcing of inputs, and creation and transfer of knowledge. MNEs increasingly rely on more than one location for future subsidiary development, resulting in MNEs developing global subsidiary networks (Birkinshaw & Pedersen, 2008). This effect is strengthened by open borders which stimulate more competition, for example within the European Union (EU). On the other hand, most MNEs have moved towards a global business unit structure in their international operations. This leads to subsidiaries with *less* power and responsibilities. In this case the effect is that, instead of one national subsidiary, there is a series of distinct value-adding activities: then, a further fine-slicing of different activities by MNEs takes place (Birkinshaw & Pedersen, 2008).

Most theories argue that foreign subsidiaries develop from simple to more extended, increasingly value-adding units with increasing responsibilities (Birkinshaw & Hood, 1998; Delany, 2000; Wintjes, 2005). An interesting question is whether in reality foreign firms follow this evolutionary path as described in theory, for the reason that in 1997-1998 (most recent data available) 39% of foreign start-ups have moved to another country or have been closed down within five years (Ministry of Economic Affairs, 2006).

Moreover, it is important for the Netherlands to formulate policies on the dynamics of inward FDI. Dutch policy on inward FDI focuses on attracting new firms. In addition, it focuses on the growth and retention of these foreign firms (Ministry of Economic Affairs, 2006; Wintjes, 2005).

Since the 1970s, Japanese MNEs have started to establish overseas subsidiaries in the United States of America (USA) and Western Europe (Westney, 2008). The last two decades, the Netherlands hosted 350 Japanese subsidiaries on average (JCC Holland, 2010). The publisher *Toyo Keizai Inc.* publishes directories of subsidiaries of Japanese MNEs in Europe. This directory reports 360 Japanese subsidiaries that were located in the Netherlands in 2009. More than 60% of all Japanese subsidiaries in the Netherlands is located in the Northwing of the Randstad. The subsidiaries show differences in characteristics like turnover, the number of Japanese expatriates, their main activities and their location. Japan is the second largest investor in the Netherlands, after the USA. The Netherlands and Japan have a very long-lasting trade relationship. An illustration of

this is the recently amended tax treaty between the two countries which provides reciprocal advantages; the rates of some taxes are reduced (Gemeente Amsterdam, 2010; Amsterdam in Business, 2010).

## **1.2 Aim and scope**

The aim of this thesis is to provide insight in the characteristics of Japanese MNE subsidiaries' evolution in the Northwing of the Randstad. Which factors characterise the input of this evolution and how is the output, i.e. the actual development, characterised? With this, the aim is also to find out to what extent the local host environment of these subsidiaries is supportive to their evolution and whether embeddedness of foreign subsidiaries is important for the Dutch economy. Several policy recommendations will be given subsequent to the research.

To achieve the described aims, it is necessary to review the existing views of international business literature on subsidiary evolution, to extend and/or adjust this approach and finally empirically research this.

According to Evolutionary Economic Geography (EEG) a firm's decisional behaviour is characterised by bounded rationality. Routines, path dependency, and lock-in are features which may influence firms' routines and consequently, the development of a firm. These features are present both within subsidiaries and their local host environment (Boschma et al., 2002). Interactions between MNE subsidiaries and (actors in) the local host environment constitute *co-evolution*. This would suggest embeddedness in the local environment to be important for subsidiary evolution. Moreover, the dynamics of the relationships between subsidiaries and (actors in) their host environment, which is undertreated in mainstream literature, will be analysed from an EEG perspective. This thesis provides empirical research on the evolution of Japanese subsidiary from the perspective of EEG.

The geographical scope of this research will be the Northwing of the Randstad in the Netherlands. The Northwing is also called the Amsterdam-Utrecht corridor, stretching from the municipalities Haarlem, via Zaandam and Utrecht to Amersfoort, Amsterdam being the economic centre in this area (Van der Groep et al., 2008). Chapter 4 provides a map of the geographical boundaries of the Northwing. Furthermore, for this research the specific scope focuses on Japanese MNE subsidiaries located in the Northwing. All Japanese MNE subsidiaries present in this area in 2009 will serve as the 'population' of the empirical research, totalling a number of 236 subsidiaries (Toyo Keizai, 2009).

## **1.3 Research questions**

In order to address the objects of this thesis as formulated above, the following research question has been developed:

***How can the evolution of Japanese MNE subsidiaries in the Northwing of the Randstad be characterised and how is their development path influenced by the local host environment?***

In order to be able to answer this research question, the following sub-questions will be discussed:

1. *What kinds of development paths in the evolution of MNE subsidiaries can be distinguished?*

2. *What are possible determinants for evolution of MNE subsidiaries considering different theoretical perspectives?*
3. *How have Japanese MNE subsidiaries in the Northwing of the Randstad developed in the last decade with respect to their activities, market scope, and competencies?*
4. *Which determinants have been found to be relevant for the evolution of these Japanese MNE subsidiaries?*
5. *What is the role of the local host environment in the evolution of Japanese MNE subsidiaries?*

#### **1.4 Research contribution**

The research contribution of this thesis is twofold. First, the research is scientifically relevant. Research about Japanese MNE subsidiary evolution in the Northwing of the Randstad is not extensively conducted in terms of *long-term dynamics* of MNE subsidiaries. Moreover, whilst much research has been carried out using mainstream approaches, the EEG approach used in this thesis has not been applied extensively on long-term subsidiary evolution. The mainstream literature about subsidiary evolution comes from the field of International Business (IB), but this in part differs from the EEG perspective. The case study from an EEG perspective in this thesis will contribute to the existing and under-theorised literature on MNE subsidiary evolution.

Furthermore, while a focus on firms and their local host environment from an economic geographical perspective differs from mainstream IB theories, the aspects of embeddedness and the retention of subsidiaries gain relevance in Dutch policy strategies, as was argued above. This illustrates the social relevance of this thesis. Foreign subsidiaries evolve, some with increasing responsibilities and activities, others without; subsidiaries do not always follow a 'standard' development model. Therefore, it is interesting to find out how the evolution of Japanese subsidiaries can be characterised in reality. The Northwing of the Randstad is an important area within the Netherlands hosting a large number of foreign subsidiaries. These subsidiaries substantially contribute to the Dutch economy because the Netherlands is a small country largely dependent on FDI. By providing information on the evolution of Japanese MNE subsidiaries, this thesis may be supportive to defining policy strategies for the retention of subsidiaries and how to enhance the embeddedness of foreign investments within their host environment.

#### **1.5 Thesis structure**

This thesis is structured as follows: Chapter 2 gives an overview of mainstream IB literature on possible subsidiary evolution paths and corresponding determinants, regularly throwing light on the case of Japanese subsidiaries. The chapter closes with critical remarks concerning existing mainstream theories. Chapter 3 starts with an attempt to fill the gaps of the mainstream literature analysed with the EEG approach. Subsequently, the conceptual framework of this thesis is presented and the chapter closes with the development of a number of hypotheses. Chapter 4 describes the data and methodology used for the empirical research in this thesis. In chapter 5 the empirical research findings are analysed: the actual development of Japanese MNE subsidiaries in the Northwing of the Randstad, including the determinants of evolution found and the impact of the local host environment. This chapter is most important for answering the research question. Finally, chapter 6 provides final conclusions, including the answer on the research question mentioned in section 1.3. The chapter closes with a discussion and provides recommendations for further research and for Dutch policy strategies on foreign investments.

## **2 Literature review: Evolution of MNE subsidiaries from an International Business perspective**

The evolution of MNE subsidiaries has been widely researched over the last 20 years. Such research was mostly done from an IB perspective (Benito et al., 2003) and to a lesser extent from an economic geographical perspective. This chapter will explain these 'mainstream' concepts and views, derived from IB literature on this subject. Throughout the whole chapter, characteristics of Japanese MNE subsidiaries will be applied to the existing views on subsidiary evolution.

Mainstream literature on the subject of subsidiary evolution pays much attention to subsidiary's roles and mandates. Lesser attention has been paid to how particular changes in roles and mandates can take place over time (Birkinshaw & Hood, 1998). Section 2.1 will elaborate on subsidiary's mandates, roles and development paths. An analysis of different mandates and roles of MNE subsidiaries will be given, while the difference between the two will be explained.

Changes in roles are driven by several determinants. Traditionally, the assumption was that the subsidiary's role is assigned to it by the parent company<sup>1</sup>. However, other aspects also influence the development of a subsidiary. Section 2.2 will describe the different determinants of subsidiary evolution.

In section 2.3 the views described from an IB perspective will be criticised through illustrating the gaps of these mainstream views. Suggestions for another approach will be introduced, whereupon will be elaborated in the next chapter.

### **2.1 Development paths of MNE subsidiaries**

#### **2.1.1 Capabilities and mandates**

It is necessary to start with an explanation of the terms 'subsidiary' and 'evolution'. Birkinshaw & Pedersen (2008, p. 368) define a subsidiary as: "*a discrete value-adding activity outside the home country*". This is a broad definition but for the specific case in this thesis a more detailed definition is more appropriate. This definition is derived from Birkinshaw et al. (2005, p. 227):

The Multinational Subsidiary is conceptualized as a semi-autonomous entity with entrepreneurial potential, within a complex competitive arena, consisting of an internal environment of other subsidiaries, internal customers and suppliers, and an external environment consisting of customers, suppliers and competitors.

The important elements of this definition are the subsidiary being semi-autonomous with entrepreneurial potential within a complex internal and external competitive environment. Semi-autonomous means that subsidiaries take on responsibilities because they have freedom to develop resources and capabilities. Entrepreneurial efforts of subsidiary managers for instance, in part constitute these responsibilities. Therefore, entrepreneurship within MNEs is related to subsidiary initiatives. The subsidiary must respond and adapt itself to the internal and external environment which represent both threats and opportunities to the subsidiary.

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<sup>1</sup> From now on, instead of 'parent company' the term 'headquarter', or 'HQ' will be used in this thesis. In this thesis, the 'HQ' is defined as the parent company which is the shareholder of the subsidiary.

In this thesis, evolution is in line with the term development, so these terms both relate to changes over time. According to mainstream literature, subsidiary evolution is a process of accumulation or reduction of resources and/or capabilities and the establishment or loss of mandates and/or roles in a subsidiary over time (Birkinshaw & Hood, 1998).

Resources are the subsidiary's owned or controlled stock of available factors, and capabilities are the subsidiary's capacity to develop resources. Many MNE resources and capabilities are developed at the subsidiary level and to some extent gathered as organisational routines that have developed over time (Birkinshaw & Hood, 1998; Birkinshaw & Pedersen, 2005). Despite the fact that the mainstream literature focuses more on capabilities than the wider concept of routines, it is considered to be relevant within the context of subsidiary evolution. Boschma & Frenken (2006, pp. 277-278) define routines as follows:

Routines can be understood as organizational skills, which cannot be reduced to the sum of individual skills. Routines are manifested at the firm level due to division-of-labour and thereby due to division-of-skills between workers in a firm. Organizational routines, as for individual skills, consist of a large part of experience knowledge (learning-by-doing) and tacit knowledge, which are hard to codify.

The role routines have in subsidiary evolution will be further explained in chapter 3. First, it is relevant to elaborate on subsidiary capabilities. Capabilities (in this definition called skills) form routines. According to Birkinshaw & Hood (1998), they can be influenced by various subsidiary, HQ and local environment factors. Every subsidiary has unique capabilities, but often they are similar within MNEs. The difference is influenced by the specific geographical setting and history of the subsidiary. Related to this path dependence, is that most of these are to a certain extent 'embedded', while some capabilities can be codified, so they cannot be easily untangled from their local context.

Mandates can be defined as: "*The business, or element of a business, in which the subsidiary participates and for which it has responsibilities beyond its national market*" (Birkinshaw, 1996, p. 471). The definition shows that mandates have to do with (elements of) business activities and the responsibility of the subsidiary reflected in these activities. These activities are for example in terms of markets served, technologies used, products manufactured, subsidiary's functions, or any combinations of these (Birkinshaw & Hood, 1998). Dörrenbächer & Gammelgaard (2006) state that the scope of responsibility the subsidiary has, depends on the scope of the activity, determining the market scope of the subsidiary.

Mandates can range from a small part of the product line, e.g. only a sales department, to total responsibility of a product, e.g. world product mandates (WPMs), in which the subsidiary is given "*global responsibility for a single product line, including development, manufacturing and marketing*" (Birkinshaw, 1996, p. 468).

The mainstream literature illustrates that many typologies for mandates have been developed. Delany (2000) distinguishes three types of subsidiary mandates: basic, intermediate and advanced mandates. Basic mandates produce and market HQ product lines in and for the local market. Subsidiaries with basic mandates also can have a bulk breaking, packaging and distribution function, or carry out activities like manufacturing, marketing or software development, for an international or global market. Subsidiaries having responsibility for intermediate mandates only control some parts of the value

chain. Advanced mandates belong to strategically independent subsidiaries. They are capable of developing lines of business for a local, international or global market.

Subsidiary mandates influence the initiative-taking of that subsidiary (Delany, 2000). Subsidiaries carrying out WPMs (Birkinshaw, 1996) or advanced mandates (Delany, 2000), are more autonomous than having basic or intermediate mandates. Subsidiaries carrying out WPMs are more an equal partner of the HQ and are expected to have more operational autonomy (Birkinshaw, 1996). Subsection 2.2.2 will come back to initiative-taking and autonomy.

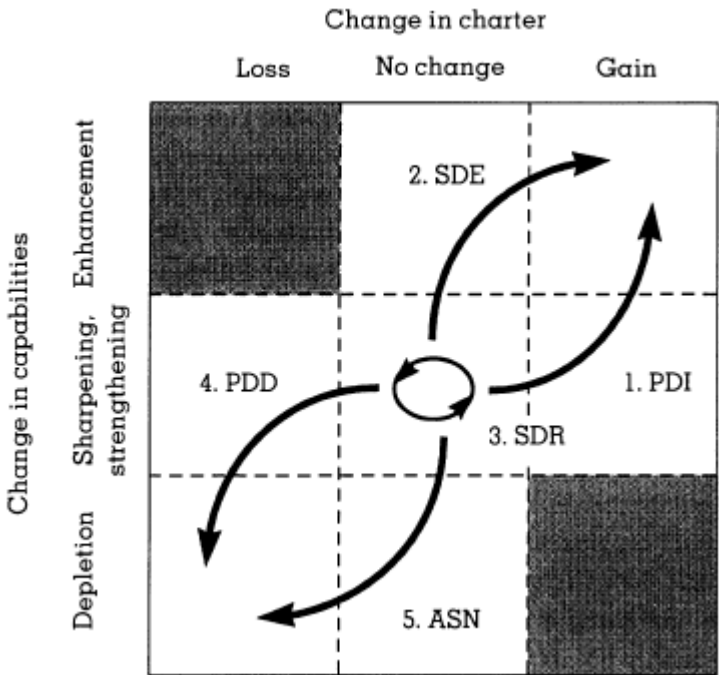
Mandates and the underlying capabilities are related to each other. Subsidiary managers will try to achieve the situation in which the subsidiary’s capability will reflect the subsidiary’s mandate. A mismatch between the two, however, often occurs. Therefore, subsidiary evolution analysis must take both capabilities and mandates into account (Birkinshaw & Hood, 1998).

In sum, subsidiary evolution occurs when its capabilities reflect its mandates. Together, they partially form routines and consequently, the role of the subsidiary in the MNE and in its local environment. The following subsection will elaborate on subsidiary’s roles in relation to its capabilities and mandates.

**2.1.2 Different mandates and roles for MNE subsidiaries**

The previous subsection has explained that Birkinshaw & Hood (1998) regard mandates and capabilities as basic elements of subsidiary evolution. They clarify this by presenting different combinations of capability and mandate change within a subsidiary. Figure 2.1 illustrates these possible combinations:

**Figure 2.1 Subsidiary evolution as a function of capability and mandate (charter) change.**



Source: Birkinshaw & Hood, 1998, p. 783.

*1. Parent Driven Investment (PDI)*

When the HQ is initiator, a mandate extension leads to an extension of subsidiary’s capacities. In this situation subsidiary managers are actively competing for obtaining a

new mandate with other subsidiaries. Capabilities are developed after obtaining the mandate.

#### *2. Subsidiary-Driven mandate Extension (SDE)*

Another way to obtain mandates is to demonstrate that the necessary capacities are present. In this case, a subsidiary manager takes initiatives to undergo the process of subsidiary-driven mandate extension. The risk is that there is no guarantee of obtaining a new mandate and the subsidiary-HQ relationship can become less tight (Birkinshaw & Hood, 1998; Paterson & Brock, 2002).

#### *3. Subsidiary-Driven mandate Reinforcement (SDR)*

This process is characterised by strengthening the existing capabilities. The aim is rather to deepen the existing mandates, than searching for new mandates. Subsidiary managers can regard this as part of a long-term strategy, to become an important subsidiary within the MNE.

#### *4. Parent Driven Divestment (PDD)*

This process of evolution is contrary to the PDI process. In a PDD process the subsidiary loses its mandate for a certain product, market or technology, initiated by the HQ. Consequently, it loses the underlying capabilities.

#### *5. Atrophy through Subsidiary Neglect (ASN)*

This process is contrary to the SDE process. Subsidiary's capabilities are gradually lost impacting the performance of the subsidiary's mandate. Eventually, the HQ takes away this mandate.

Characteristic of this model is the premise that subsidiaries often have more than one mandate. Both positive and negative steps, as well as subsidiary-driven and parent-driven ones, can take place within a subsidiary at the same time. When a subsidiary has more than one mandate, it can choose to focus on the mandate with a positive and desired development path (Birkinshaw & Hood, 1998).

A criticism on this model is that the combination of a capability's enhancement and a mandate's loss on the one hand, and the combination of a capability's depletion and a mandate's gain on the other is not acknowledged as realistic combinations, or at least is not explained. The following explanation will illustrate that these combinations are possible too: roles and mandates are not synonymous. The role assigned by the HQ to its subsidiary determines the responsibility of the subsidiary: its mandates. Roles are defined by the market, product and value-adding scope of the subsidiary whilst the mandates reflect the subsidiary's responsibilities for (an element of) a business. Mandates are developed through the specific development of the subsidiary or can be the result of the subsidiary's own initiative-taking (Birkinshaw, 1996). To further clarify the difference between roles and mandates, an example of a change in role without a change in mandate is given: a subsidiary with a sales and production function may be subjected to rationalisation within the MNE; the number of subsidiaries may be rationalised. This possibly leads to specialisation within the subsidiary to the activity of sales, for instance. If all sales (formerly carried out by several subsidiaries) are relocated to this subsidiary, then the mandate of the subsidiary has been increased because it now has the full responsibility for sales. If the function of production is relocated to other subsidiaries, then the production mandate has been lost. This example also presents a slight difference between role and function. Function is the concrete activities the subsidiary carries out, together formulating the subsidiary's role. This role determines the subsidiary's mandates. Birkinshaw & Hood (1998, p. 782) call mandates the "*visible manifestation of the subsidiary's role in the MNE*".



While Birkinshaw & Hood (1998) present a dynamic model with the possibility of both positive and negative steps, many other researchers present models or typologies with the focus on positive development only.

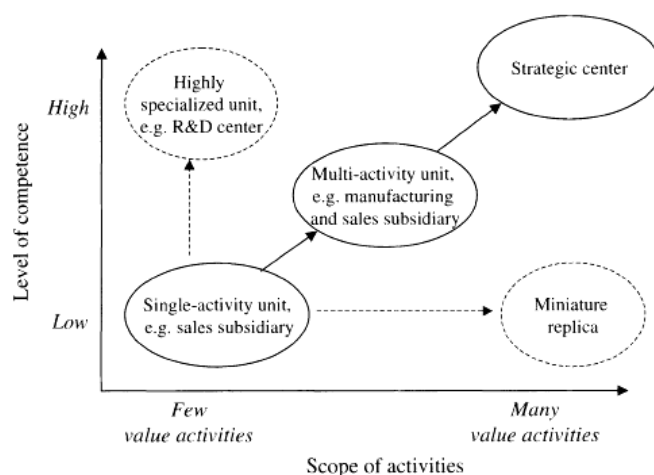
An example of a widely used typology is that of White & Poynter (in Dörrenbächer & Gammelgaard, 2006). They define five roles by the market scope, product scope and value-adding scope of the subsidiary: 'Marketing satellites'; subsidiaries marketing single products or a range of products in the host environment, 'miniature replicas'; subsidiaries marketing and manufacturing products for the HQ, 'rationalised manufacturers'; subsidiaries producing (parts of) individual products for the world market, 'product specialists'; subsidiaries having the whole responsibility for a product within an MNE, including the development, manufacturing and selling of the product worldwide, and 'strategically independent units'; subsidiaries being free to develop and manufacture new products, and even setting up new markets.

As Birkinshaw & Hood (1998) also argued, these concepts characterise a subsidiary's mandate(s) and are therefore useful to characterise subsidiary evolution. These concepts can be clarified as follows: market scope is the scope of geographic markets available to the subsidiary. Product scope is the extent to which a subsidiary's business is able to create product line extensions or new product areas. Value-adding scope relates to the number of stages in the value-added chain, performed at the subsidiary in the host economy (Dörrenbächer & Gammelgaard, 2006).

Several researchers have used the typology of White and Poynter to classify subsidiary roles. Delany (2000) for example, argued that the specific roles could be subdivided into different mandates. Birkinshaw (1996) partially used the typology of White & Poynter by distinguishing between product specialists and subsidiaries with world product mandates.

Benito et al. (2003) present subsidiary development in a more dynamic model. According to them, subsidiaries can develop by increasing their scope of activities and their level of competence. The level of competence was not specifically mentioned by White & Poynter, but several researchers, e.g. Birkinshaw (1996), pay attention to subsidiary's competences and capabilities related to augmenting resources. However, Birkinshaw views subsidiary capabilities as a determinant for subsidiary development. It is interesting to present the development of subsidiary's roles through changes in the level of competence and the scope of activities.

**Figure 2.2 Different paths of subsidiary roles.**



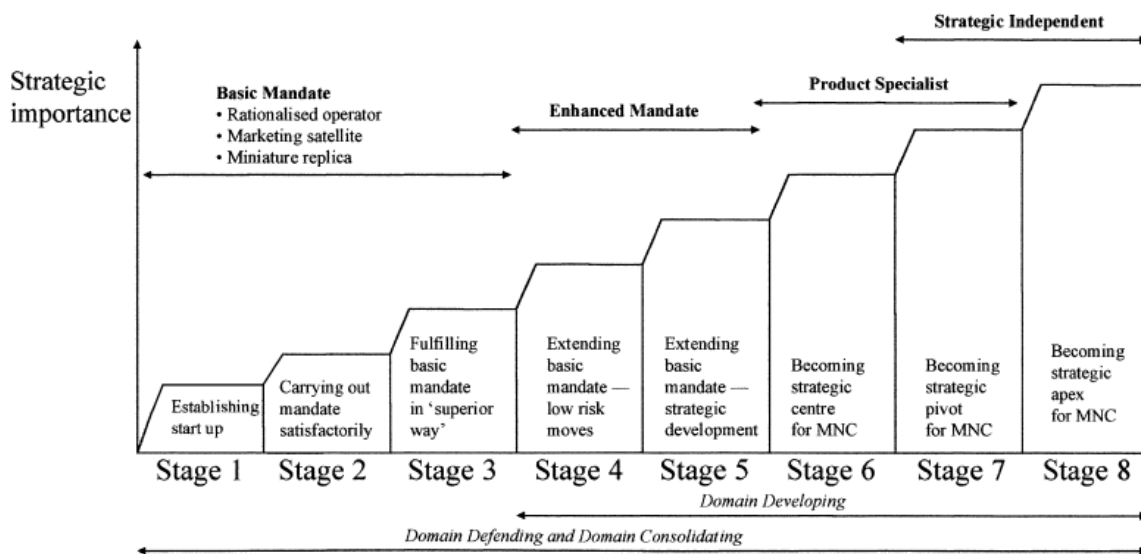
**Benito et al., 2003, p. 447.**

Figure 2.2 shows that most 'new' subsidiaries start as a 'single activity unit'. During their development the scope of activities and/or level of competence can increase; 'miniature replicas' are characterised by carrying out many activities but keeping a low level of competence. These subsidiaries are often found in strategic locations in order to achieve economies of scale and scope for the entire value chain and basically mirror the HQ. In contrast, 'highly specialised units' develop a high level of competence and execute few value activities. Due to the high competence level they add value to the whole MNE through their knowledge and competence. Combinations between these two extreme types of subsidiaries do exist, developing from a 'single activity unit' to a 'multi-activity unit' and possibly to a 'strategic centre', for instance. The 'multi-activity unit' both increases its level of competence and the scope of activities, while the latter usually results from a process of rationalisation and downgrading resulting in many value activities and a high level of competence.

Subsidiary roles are not the same as subsidiary strategies. A subsidiary *role* is often assigned to the subsidiary by its HQ. In contrast, subsidiary *strategy* is a certain level of choice or autonomy on the part of the subsidiary (Birkinshaw & Pedersen, 2008). Despite this difference, there is a connection between these two, as explained by Dörrenbächer & Gammelgaard (2006): changes along one or more of the dimensions (namely market, product or value-adding scope), are synonymous with role development and at the same time represent a basic shift in the strategy of a subsidiary. For instance, an MNE can rationalise subsidiaries by reorganising the activities of its subsidiaries around the world which results in changes in the scope of subsidiaries or in their responsibility. This illustrates that the subsidiary's strategy is also based on the subsidiary's routines. Typically, the scope may be broadened when the number of subsidiaries is rationalised or when local environmental conditions stimulate localisation of activities (Benito et al., 2003; Birkinshaw, 1996). Likewise, decreases in scope occur when the aim is to focus on specific activities or to build expertise within a specific area. Therefore, changes in scope are often related to both organisational and spatial considerations (Benito et al., 2003). To exemplify this, more specific examples are given: firstly, an increase in the product scope may be the extension of a product line and new products. Secondly, the introduction of (additional) R&D tasks is an example of increasing the value-added scope. Thirdly, sales in new geographical markets reflect an increase in the market scope (Dörrenbächer & Gammelgaard, 2006).

Like Birkinshaw & Hood (1998), Birkinshaw (1996), Benito et al. (2003), and Delany (2000) present subsidiary roles or mandates in an evolutionary process, while White & Poynter present subsidiary roles more statically. Birkinshaw (1996) proposes a four-stage evolutionary process for marketing satellites, going from a sales subsidiary, to local sales and manufacturing, regional hub and finally a world product mandate (WPM). This process corresponds with the development of mandates from a basic to an intermediate and eventually an advanced mandate (Delany, 2000). Delany provides a more comprehensive model of subsidiary development, distinguishing eight stages while each stage ideally has a cumulative effect over time; see figure 2.3 on the next page.

**Figure 2.3 Development stages of subsidiaries.**



**Source: Delany, 2000, p. 228.**

In figure 2.3 stage 1-3 contains the operations of basic mandates. Stage 4 is a crucial stage. From here the subsidiary takes the initiative to include activities beyond the basic mandate. Taking some risks is necessary since the subsidiary does not have prior experience with intermediate mandates. In stage 5 the subsidiary desires greater strategic importance and further expands the intermediate mandates to add value to the HQ. Stages 6-8 encompass advanced mandates (or WPMs): high-value activities are undertaken in the subsidiary. The strategic importance of the subsidiary compared to the whole MNE further increases in these stages. However, only a minority of subsidiaries reaches these last stages.

In sum, when initiatives are implemented successfully the subsidiary develops through growing mandates in terms of more superior mandates and scaling up and at the same time the strategic importance of the subsidiary increases. The cooperation between the subsidiary and its HQ also drive the development of mandates (Birkinshaw, 1996). Delany argues that a gradual development, without skipping any of the stages, is needed to reach a high level of strategic importance of the subsidiary. However, this is not always true. As Birkinshaw (1996) argues, subsidiary mandates have a life cycle and can be gained and lost.

Typologies of the evolution of Japanese MNEs have been developed too. However, there exists discussion about this. On the one hand, in the late 1970s it was argued that the evolution of Japanese MNEs would converge towards established MNE models, while on the other hand it was argued that an alternative model of a Japanese-style MNE would be developed. In the 1980s, an alternative evolution model of the MNE was provided by the 'export-oriented firms' which became dominant in penetrating the USA and European markets from their production base in Japan. Porter (in Westney, 2008, p. 634) identified these as global firms using the 'purest global strategy': "*concentrate as many activities as possible in one country, serve the world from this home base, and tightly coordinate those activities that must inherently be performed near the buyer*".

While the described models and typologies show differences, the similarity found in characterising subsidiary development is the attention paid to one or more of the market, product or value-adding scope dimensions in connection with mandates. Many

researchers argue that a subsidiary may develop from one role to the other reflecting their mandates. Most models are presented statically or only moderately dynamic.

Not only internal factors influence the kind of mandate assigned to the subsidiary, but also the (external) spatial and organisational context of the subsidiary. The mainstream literature does not ignore this, but argues that the real development of the mandate is *mainly* driven by the actions of the subsidiary. The following section will elaborate on the different determinants of subsidiary evolution.

## 2.2 Determinants for the evolution of MNE subsidiaries

In most of the mainstream literature on MNEs several internal and external determinants are identified as drivers of subsidiary development and change (Birkinshaw & Pedersen, 2008; Westney & Zaheer, 2008). An age-old debate is whether environmental selection or managerial adaptation is the primary determinant behind organisational evolution (Madhok & Liu, 2006). There is some agreement, however, that both determine the evolution of an MNE subsidiary. More specific, the determinants most often mentioned in mainstream literature, are aspects of the (1) HQ, (2) subsidiary, and (3) environment of the subsidiary (Birkinshaw & Hood, 1998; Dörrenbächer & Gammelgaard, 2006; Madhok & Liu, 2006; Paterson & Brock, 2002). Some variations in these determinants exist, but the attempt is made to describe the influence of the three determinants on subsidiary evolution from an IB perspective.

### 2.2.1 Headquarter

Originally, the HQ was regarded as responsible for strategic decisions and for monitoring their subsidiary's performance (Birkinshaw & Hood, 1998; Delany, 2000). In contrast to this hierarchical perspective of the MNE, more recently, a heterarchical perspective has arisen. Subsidiaries get more responsibilities and increase their initiative-taking (Delany, 2000). The concept 'heterarchy' stresses the importance of multiple centres, internal variety, and integration through repeated controls and shared experience (Westney & Zaheer, 2008). However, HQ's strategies, in part reflected in the mandates assigned to the HQ's subsidiaries, still play a role in subsidiary development. Thus, subsidiaries cannot be completely separated from their HQ (Birkinshaw & Hood, 1998; Dörrenbächer & Gammelgaard, 2006).

Paterson & Brock (2002) call the HQ strategy, the relationship with its subsidiaries and the global environment as attributes of the HQ influencing subsidiary evolution. Figure 2.4 presents these attributes:

**Figure 2.4 Headquarter determinants.**

Headquarter determinants
HQ strategy
<ul style="list-style-type: none"><li>• Internal culture</li><li>• Parent management ethnocentrism</li></ul>
Relationship with the subsidiary/subsidiaries
<ul style="list-style-type: none"><li>• Decision-making authority</li><li>• Importance to the whole MNE</li></ul>
Global environment
<ul style="list-style-type: none"><li>• Financial conditions</li><li>• Industry globalisation</li></ul>

The internal culture, including the routines and the presence and/or level of ethnocentrism, influence the corporate strategy. As far as routines are concerned, Birkinshaw & Hood (1998) mention the attitude of HQ managers toward foreign investment as being important in subsidiary evolution. They link this to *parent management ethnocentrism* which represents the importance of their own national identity being superior over others. A high level of ethnocentrism might negatively impact the probability of important international investments, thus limiting subsidiary development.

In Japanese MNEs, parent management ethnocentrism is relatively found more than in American or European MNEs, for instance (Kopp, 1994). According to Westney (2008) and Kopp (1994) the management system of Japanese HQs at home has considerable influence: a high proportion of Japanese expatriates in key management positions and the trend to transfer home country patterns of MNEs into overseas subsidiaries are assigned to the management system. Examples of typical home country patterns are the decision-making systems, including face-to-face information sharing and negotiation, human resource management systems, and the coordination and control systems. The trend to transfer home country methods into overseas subsidiaries exists because ethnocentrically managed firms have the assumption that HQ nationals are the most skilled (Kopp, 1994). Yoshino (in Westney, 2008, p. 633) illustrates that a problem coming up is that the Japanese management system "*cannot effectively integrate local nationals into the mainstream of management in the foreign subsidiaries*". This is enforced by the fact that Japanese MNEs have relatively high proportions of expatriate managers and a strong tendency to transfer Japanese management and production systems to Japanese foreign subsidiaries. In general, Japanese firms are reluctant to hire local employees for subsidiary management positions (Kopp, 1994). It is interesting to keep in mind that the function of Japanese expatriates can differ. They can have a control and coordination of operations function, or a specific knowledge exploitation function; to transfer capabilities into subsidiaries. This can influence the routines of a subsidiary and, consequently, its strategy and its market, product and value-adding scope. The role of expatriates also influences the period of the assignment (Bonache & Brewster, 2001).

The relationship between the HQ and its subsidiaries can be influenced by the decision-making authority. The higher the level of decentralisation of decision-making, the more autonomy is granted to the subsidiary (Birkinshaw & Hood, 1998). Within Japanese MNEs decision-making authority has much impact on subsidiary evolution. In Japanese MNEs, the HQ generally has great influence on the activities and mandates of their subsidiaries. This is for a great part influenced by the Japanese style of decision-making, which very much relies on the concept of *nemawashi* (Wolfe, 1992). In this model, a coordinator is responsible for moving the group to consensus. This requirement for consensus is very characteristic of Japanese decision-making, as Wolfe illustrates: "*While American decision makers often use groups, the final decision is often the sole responsibility of the senior participant, who may decide unilaterally, in contrast to the Japanese attempt to reach consensus via a process called nemawashi/ringi. In the Japanese system, a coordinator is crucial to the process. The coordinator has no coercive authority, but works by persuasion*" (Wolfe, 1992, p. 125-126).

Officially, the decision-making process consists of five steps (Wolfe, 1992, p. 128):

1. Information collection (*joho shyushyu*);
2. Data analysis and alternative generation (*ritsuan*);
3. Tentative plan selection by the coordinator (*sentaku*);

4. Negotiation and persuasion (*nemawashi*); and
5. Formal document circulation including the decision made (*ringi*).

This illustrates that in this Japanese system acceptance by all members within the decision-process is necessary, in the last step unanimous consensus is actually certain. This system may lead to long processes until a decision has been made (Westney, 2008). When this system is applied to a subsidiary, one could expect that Japanese MNEs rather extend their subsidiary activities than start-up new subsidiaries.

The financial conditions of the MNE and the industry globalisation may impact the global environment. Changes in this environment also influence subsidiary evolution. Mainstream literature, however, does not pay much attention to economic events in the home country which might influence the path dependency of MNEs. In Japan, remarkable changes in the global environment characterise changes in the scale and direction of Japanese FDI in the last three decades of the twentieth century. In 1989, Japanese FDI was at its peak, accounting for 30% of total world FDI flows. In 1997, Japan ranked fifth among the sources of FDI. The several turning points were caused by three phenomena: *endaka* -the sudden strengthening of the yen in 1985-, the bursting of the Bubble economy in 1990-1991, and the Asia financial crisis of 1997. The *endaka* resulted in the fact that Japan became a relatively high-cost location compared to Western and other Asian countries. This caused a move of Japanese auto firms into the USA. The Bubble economy has given MNEs access to low-cost capital to finance overseas expansion which stimulated manufacturing firms to move production outside Japan. Also, push factors were at hand for overseas expansion: high costs and labour shortages. Pull factors were capital and technical talent, provided by the USA and Western Europe, which led to an increasing number and scale of Japanese-owned R&D centres in these regions. Japanese MNEs tended to have a range of subsidiaries within a country, instead of a single country subsidiary (Westney, 2008).

Hogenbirk & Van Kranenburg (2006) distinguish between a multi-domestic and global strategy of MNE HQs. The first assumes that national markets differ regarding political and social structures, preferences of consumers, and local habits. Adjustment of products, marketing strategies and management styles to the local business environment is important. The subsidiaries of the MNE behave as miniature replicas of the HQ. A HQ's global strategy on the contrary, includes the targeting of many different markets from one location. The HQ of the MNE tries to create economies of scale by concentrating its production in one or a few locations and by exporting it globally. Exporting is easy because the production is not adapted to local sales. Japanese MNEs are rather characterised by a multi-domestic HQ strategy. The next subsection will return to this.

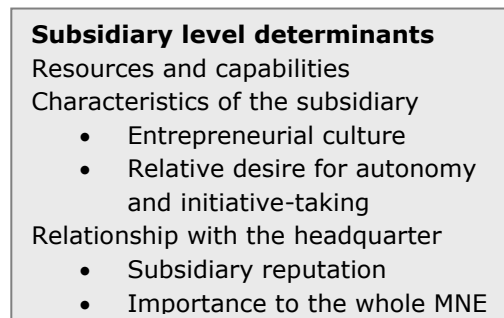
Dörrenbächer & Gammelgaard (2006) state that many subsidiaries gain power and increase their capabilities and localisation advantages over time. HQ strategies not only influence subsidiary's roles, but it also occurs the other way around: the stronger the subsidiary capabilities, the stronger its ability to influence HQ strategies. This shows that the relationship between HQs and their subsidiaries is important for subsidiaries obtaining new mandates.

In sum, according to the mainstream IB literature, HQ strategies in part determine the role of subsidiaries; their capabilities and their degree of autonomy and taking initiatives. Also, the HQ position is influenced by its culture, that is reflected MNE's routines. The corporate culture shapes a manager's behaviour and decision-making (Williams & Van Triest, 2009).

### 2.2.2 Subsidiary

A subsidiary has specific capabilities and is part of a network (Birkinshaw & Hood, 1998). The management of the subsidiary often desires to increase its autonomy and network, in order to legitimise the existence of the subsidiary. Other characteristics of the subsidiary and the subsidiary's relationship with its HQ are determinants of subsidiary's choices and, consequently, development. Examples of the former, subsidiary's characteristics, are the entrepreneurial culture and relative desire for autonomy. These factors are closely connected to each other. Examples of the latter, the subsidiary-HQ relationship, are both the subsidiary's reputation and importance to the whole MNE (Paterson & Brock, 2002). See figure 2.5 for an overview of subsidiary level determinants:

**Figure 2.5 Subsidiary level determinants.**



Although the *head office knows best syndrome* persists, according to Delany (2000), the initiative-taking of subsidiaries has grown in the last years (Birkinshaw & Pedersen, 2008). Also the definition of subsidiaries presented in section 2.1 has illustrated that initiative-taking or entrepreneurial efforts are important aspects of subsidiaries. The degree of initiative-taking and autonomy is dependent on the subsidiary's strategy. Subsidiary strategy is defined as "*the positioning of the subsidiary vis-à-vis its competitors and its customers, and with regard to its underlying resources and capabilities*" (Birkinshaw & Pedersen, 2008, p. 376). This definition contains a market-positioning and a resource development component to strategy. The degree of freedom for subsidiaries to shape their market-positioning has become more complex in the last years due to some trends such as global integration of the supply chain and an increasingly global competition. At the same time however, entrepreneurial activities of subsidiary managers are stimulated. So on the one hand, changes on a higher (MNE) level might limit subsidiary's choice, while on the other initiative-taking is stimulated to increase value-adding (Birkinshaw & Pedersen, 2008). The previous subsection illustrated this yet for Japanese subsidiaries.

The resource component refers to the subsidiary's internal resources and capabilities. They are to a certain extent 'embedded', so they cannot be easily untangled from their local context. Moreover, subsidiary managers are responsible for taking care of and developing their capabilities, as they have local contacts with other actors and knowledge of local events. There exists an increased focus on knowledge developed in subsidiaries. This provides more scope for subsidiaries following their own interests (Birkinshaw & Pedersen, 2008). This shows that subsidiary strategy is also dependent on the host environment, something which will be discussed in the next subsection.

Delany (2000) also illustrates the links among the subsidiary's strategy, the environment, and the HQ. He argues that the strategic market a subsidiary faces influences whether and to what degree that subsidiary successfully takes specific initiatives. This can be either a local, global or internal market. The first one is the

national end-customer market in which the subsidiary is located, most relevant for marketing and sales subsidiaries. Dealing with local customers, competitors, and suppliers for instance are some of the subsidiary's tasks. Second, the global market is either the global or regional end-customer market, for example, specific regional niches of that market. Subsidiaries operating in this kind of market are often occupied with mandates beyond national boundaries. It is possible that more national subsidiaries exist to execute specific activities. Last, the internal market consists of internal customers, suppliers and competitors within the MNE. This market can be either regional or global depending on the HQ-subsidiary structure and is of great importance (Delany, 2000).

In sum, Delany shows that the initiative-taking depends on the strategic market of the subsidiary i.e. the business environment the subsidiary is active in. The market the subsidiary faces, then, is dependent on the strategy the HQ has taken. This shows that the three determinants are complementary and cannot be fully separated.

Japanese MNEs are characterised by relatively loose control structures and a strong local market orientation. Because Japanese MNEs did have less advanced technologies to protect than Western MNEs, they were more eager to share control. Also, in order to get market entry, they were more eager to make concessions to local interests. Adaptation to the local market was considered to be important in this process.

In the late 1980s, the Japanese 'export-oriented firms' were seen as less developed than their 'global' Western competitors. Increasing the local value-added in their Western subsidiaries was one of their goals, by setting up R&D centres and even regional HQs as umbrella organisations for their local subsidiaries. These regional HQs were inclined to be staffed by and controlled from the HQ in Japan (Westney, 2008). This would suggest that Japanese subsidiaries typically want to have both a global and local market strategy; regional HQs having a global market scope and local subsidiaries having a local market scope.

Initiative-taking as part of subsidiary strategy, can be divided into three types: domain developing, domain consolidating and domain defending: *Domain developing*; the subsidiary management takes an initiative which builds on current local business or starting sales in the host environment. *Domain consolidating*; the subsidiary tries to improve its performance and searches for opportunities to have input into MNE decisions in order to add value to the MNE. *Domain defending*; the subsidiary may hold on to its current mandate because of risks of closure for instance. Additionally, it will try to report directly to the HQ to hold its influence. The different types of initiatives are also represented in figure 2.3 and are linked to specific development stages (Delany, 2000). Keeping in mind that Japanese MNEs are characterised by parent management ethnocentrism and a centralised decision-making system, one would expect Japanese subsidiaries rather to be characterised as domain defending.

As has been argued above, the mainstream IB literature states that the use of subsidiary's capabilities is important in order to develop (new) roles. High levels of capabilities, tend to lead to greater subsidiary autonomy (Benito et al., 2003). Autonomy is closely linked to initiative-taking, it has important influence on initiative-taking and creates innovations (Birkinshaw et al., 2005), and therefore, can also be seen as a determinant of subsidiary development according to the mainstream IB literature: "[...] *recent literature treats subsidiary autonomy more as an input that drives the subsidiary development*" (Birkinshaw & Pedersen, 2008, p. 372). Autonomy is influenced by the degree of power the management of a subsidiary has. In turn, it influences the development of a subsidiary, since autonomy is important to improve its responsiveness on local events and to create activities in an internal market. With this, it also influences the relationship between the subsidiary and its HQ (Paterson & Brock, 2002; Williams &



Van Triest, 2009). Williams & Van Triest (2009) additionally call innovative potential of subsidiaries, the development of internal networks, changes in mandates, quicker decision-making, and local knowledge creation -including a 'reverse' knowledge transfer from subsidiaries into HQs- as outcomes of subsidiaries' autonomy.

The mainstream literature mentions the subsidiary's relationship with the HQ as another determinant of subsidiary evolution. This relationship is reflected by the informal ties between key decision makers in the HQ and managers within the subsidiary. Often, subsidiary managers are expatriates or people who have built up a network of relationships with HQ managers (Birkinshaw & Hood, 1998). Dörrenbächer & Geppert (2009) pay attention to an actor's personality related to subsidiary's autonomy and initiative-taking. The personal interests of subsidiary managers have a substantial impact on the degree of initiative-taking of subsidiaries. These personal interests are related to the motivation and their decisions about the opportunities to take initiatives, the way they pursue these decisions, and are strongly linked to the socio-political and biographical background of the managers. This illustrates the influence of path dependency in subsidiary role development, an aspect to which minor attention exists in mainstream literature. The relationship between the HQ and the subsidiary also contributes to the position and reputation the subsidiary takes within the MNE.

Japanese MNEs have a relatively high proportion of expatriates in their subsidiaries (Kopp, 1994; Westney, 2008). Together with parent management ethnocentrism, one would expect that Japanese subsidiary managers generally have strong relationships with their HQ. Often, in the initial phase of a subsidiary the dependence of actors on the HQ is larger and its autonomy smaller. During the development of the subsidiary, its dependence decreases and its autonomy increases (Drogendijk, 2005). For Japanese subsidiaries, their autonomy might not necessarily increase over time since they are often subordinated to regional HQs.

### **2.2.3 Environment**

The mainstream literature calls the local host environment as the third determinant of subsidiary evolution. However, while the mainstream literature particularly deals with specific (internal) factors of MNEs, attention to the influence of environmental (i.e. external) factors is limited (Benito et al., 2003; Birkinshaw & Hood, 1998).

According to Benito et al. (2003) environmental factors influence both the initial entry decision and the scope and capabilities of subsidiaries. They illustrate the importance of the subsidiary's environment by stating: "*Once the decision to enter a given market through FDI is taken, the kinds of activity undertaken by the subsidiary and its level of competence are also co-determined by the specific advantages of the host location*" (Benito et al., 2003, p. 444). Madhok & Liu (2006) agree with this, they argue that the local geographical niche may decline or expand due to environmental changes. This may influence the subsidiary becoming more or less important to the MNE. Birkinshaw & Hood (1998) consider the local host environment as having considerable influence on the activities of a subsidiary. The local host environment contains elements which impose constraints and possibilities to a subsidiary.

MNEs and their subsidiaries are all located in unique environments, characterised by specific conditions which are determined by the presence of consumers, competitors, suppliers, and governmental institutions. These conditions have a significant impact on the subsidiary's activities and their way of developing. Other examples of attributes of the local environment are the cultural environment and infrastructure for instance (Paterson & Brock, 2002). See figure 2.6 for an overview of relevant local host environment level determinants:

**Figure 2.6 Local host environment determinants.**



Drogendijk (2005) stresses that it is important for subsidiaries to learn how to deal with the local market and adapt to the culture of the local host environment, in order to create legitimacy and an own local network. If subsidiaries are not able to adapt to the local environment, performance and survival chance are negatively influenced through cultural differences between the home and host market. Moreover, the HQ strategy is influenced by the national culture of the *home* country, consequently having an impact on subsidiary's autonomy (Williams & Van Triest, 2009).

Despite an almost free-trade world, host governments (either national, regional or local) make use of incentives for foreign investments. In addition, regional and local agencies are present to help MNEs with location choice and finding partners (Birkinshaw & Hood, 1998). Some subsidiaries may have privileged access to certain factors, e.g. incentives, which allow the MNE to grow (Delany, 2000).

The dynamism of the local host environment refers to interactions between the subsidiary and other firms in that environment. This dynamism can be illustrated in terms of demand and supply conditions, competition, and the existence of related industries for instance (Birkinshaw & Hood, 1998). A dynamic local host environment may upgrade a subsidiary's capabilities. Local host environment advantages namely, play a role in shaping the capabilities of a subsidiary on two levels. Firstly, the quantity of capabilities is a function of the quality of local host environment advantages that this environment can make available. This means that resource availability influences the choice of location. Capabilities can be understood as being special relationships (Delany, 2000). Special relationships with both internal and external actors are necessary to develop. These relationships increase autonomy for the subsidiary and provide them insight in how to add value. More specifically, both Benito et al. (2003) and Drogendijk (2005) state that actors present in the environment have considerable influence on the development of subsidiaries. Interactions and building relationships with other actors lead to exchange of resources, such as goods, financial resources and knowledge. Building relationships with actors in the internal market also increases credibility in the performance of the existing mandate.

Secondly, MNEs favour to start sequel investments in locations where they have prior experience, although providing sub-optimal profits. This is both because firms are not infinitely rational and because it takes time to develop capabilities. Moreover, an exit of a subsidiary at a certain location results in entry in another location, suffering considerable entry costs. High value-added activities, i.e. subsidiaries with many capabilities, tend to be more embedded in a location to maintain this level (Benito et al., 2003). This experience effect comes up probably because experienced subsidiaries are more familiar with the local conditions of the host environment than newcomers (Shimizutani & Todo, 2008). Japanese firms for example, are characterised by a strong tendency for agglomeration; they prefer a number of Japanese firms in an industry to enter a new

location in the same period (Westney, 2008). Agglomeration would stimulate them to get access to specific knowledge, which would stimulate their embeddedness.

### **2.3 Criticism on the mainstream theory**

The previous sections have given an overview of the mainstream IB literature on subsidiary evolution. While this overview provided valuable insights, some deficiencies can be identified too. These mainly focus on the view of the host environment of subsidiaries and the lack of relationship between the two. Also, minor attention is paid to networks the subsidiary belongs to and the relationship with other economic actors.

In general, the mainstream literature presented utilises many typologies but ignores to give explanations; the mainstream literature does not try to pose the question *why* certain things possibly happen. With typologies, the suggestion is made that every possible type of subsidiary role or development path is identified and that these paths are linear. Although Birkinshaw & Hood (1998) mention that combinations of development paths are possible, the overall IB literature ignores this, at least they do not elaborate on it. Moreover, the different development paths are described statically; there is minor attention to the dynamism of development paths. To come back to the lack of explanation, it is acknowledged that path dependency and a specific geographic setting play some role in subsidiary evolution, but this is not specifically researched.

In the introduction of this thesis it was argued that on the one hand, MNEs increasingly rely on more than one location for future subsidiary development, resulting in MNEs developing global subsidiary networks (Birkinshaw & Pedersen, 2008). Hogenbirk & Van Kranenburg (2006, p. 59) also argued: "*many subsidiaries have developed into regional product mandates, taking full responsibility for the development, production, and international marketing of distinctive products, resulting in an upgrading of the subsidiaries' role*". On the other hand, however, Birkinshaw & Pedersen (2008) also argue that MNEs have moved towards a global business unit structure in their international operations which results in a series of distinct value-adding activities: then, a fine-slicing of different activities by MNEs takes place. The latter development path is widespread; functional specialisation is a trend observed within subsidiaries. Specialisation is in part influenced by the subsidiary's relationship with the HQ, the relationships within its 'business environment' and the subsidiary's routines (developed by the subsidiary itself or adopted from the HQ). If specialisation indeed takes place within Japanese subsidiaries, it would be interesting to find out the role of the host environment in relation to the subsidiary's evolution.

While the number of typologies and models acknowledges heterogeneity of subsidiaries and their roles as such, little attention is paid to the implications of such heterogeneity for subsidiary evolution. This also suggests focusing on subsidiary routines, since these contribute to the heterogeneity in the population of Japanese subsidiaries. This variety, in turn, implies differences in subsidiary evolution (Boschma & Frenken, 2006).

The importance of the three determinants distinguished was illustrated, with the focus on the first and the second determinant, the HQ and the subsidiary. Subsection 2.2.1 has illustrated that mainstream literature does not pay much attention to the dynamics of MNE HQs. Subsection 2.2.2 has shown that subsidiary initiative-taking and autonomy is important for the subsidiary's evolution, but the relationship with subsidiary's routines is poor. Characteristics of the subsidiary are also described generally, suggesting that subsidiaries can have different backgrounds but this is not exemplified. Birkinshaw & Hood (1998) stress the importance of subsidiary's capabilities and mandates, but do not

really elaborate on the HQ's capabilities and mandates. Japanese subsidiaries for example, are much influenced by home country dynamics and HQ characteristics. This also shows that the impact of routines within MNEs is underestimated. These are elements which need to be added to mainstream literature. The last determinant, the local host environment of the subsidiary is mostly described statically. The theorisation of the local environment is too general and is mostly seen as a set of conditions at macro-level. Although the mainstream IB literature acknowledges the local host environment as one of the drivers of subsidiary evolution, it is not regarded as important as the other two drivers. Birkinshaw & Hood (1998) do characterise the local host environment as dynamic but the mainstream literature lacks real attention to dynamic aspects of the local host environment. Today's world is very dynamic, everything in firms' environments, both local and global, is subjected to changes which have major impacts on people, firms, institutions, economies et cetera. Within the mainstream literature little analysis revolves around the micro level of subsidiaries while the first provides specific assets, determining subsidiary's capabilities. Identifying these specific assets and determining the role these assets play in subsidiary evolution lacks in the mainstream literature.

To conclude, reviewing the mainstream literature on subsidiary evolution has resulted in some critical notes about the IB perspective on this subject. The Evolutionary Economic Geography (EEG) could be a useful addition to the mainstream literature. The mainstream IB and EEG literature share similarities but the EEG approach has another focus and differs in some respect. The following chapter will explain the key concepts of EEG and will show the usefulness of this approach on subsidiary evolution.

### **3 Filling the gaps of mainstream literature with an evolutionary approach**

The previous chapter has illustrated views from the mainstream literature on subsidiary evolution. In section 2.3 mainstream views were critically discussed and suggestions were given for the use of the EEG. By adjusting the IB theoretical views and adding aspects of the EEG perspective, a more comprehensive approach on subsidiary evolution can be developed. Subsequently, this can be used to empirically research the research questions posed in chapter 1.

Firstly, the key elements of EEG will be explained in section 3.1. Secondly, some attention will be paid to the relational economic geography, whereof parts are well applicable to that of EEG. Thirdly, section 3.2 will focus on the role of the local environment combined with mainstream views described in chapter 2, in order to be able to develop a comprehensive approach on subsidiary evolution for this thesis. Fourthly, in section 3.3 a conceptual framework has been developed with the literature analysed in chapters 2 and 3. Fifthly, this results in the development of several hypotheses in section 3.4. The chapter closes with making the concepts that are presented in the hypotheses operational.

#### **3.1 Key concepts in an EEG approach**

Within the EEG approach on firm development some key concepts can be identified. These are routines, path dependency, lock-in and co-evolution (Essletzbigler & Rigby, 2007). First, it is important to discuss the term 'evolution' again, since within EEG this term has another focus than in mainstream literature. Section 2.1 presented evolution as a process of accumulation or reduction of resources/capabilities and the establishment or loss of mandates in a subsidiary over time (Birkinshaw & Hood, 1998). This definition is based on subsidiary's capabilities and mandates; directly referring to internal characteristics. Chang & Rosenzweig (1998, p. 327) use the following definition: "*a dynamic process that responds to a variety of external and internal factors*". This definition contains three elements: evolution being dynamic, and the influence of external and internal factors. This corresponds with the EEG approach on evolution. With respect to the external factors, 'co-evolution' of subsidiaries is even more appropriate. This is explained by Madhok & Liu (2006): they argue that evolution occurs at multiple separate levels, with the units of evolution being nested within one another. The following quote explains this: "*the emphasis is on the simultaneous evolution of organizations [...] and their environments – comprising other organizations and entities – where the former influences the latter as well as vice versa in a continual and interactive process*" (Madhok & Liu, 2006, p. 3). In a broad sense, evolutionary theories are about changes over time, influenced by path dependency, where these changes are driven by internal and external selection pressures and the environment (Westney & Zaheer, 2008). What are these external and internal factors 'in their environment' in particular? To answer this question the key concepts of the EEG are explained.

From the mid-1970s the evolutionary economics thinking has come up. It stresses the importance of new technologies to stimulate economic growth and development and has an interdisciplinary perspective (Boschma et al., 2002). More specific, Boschma & Frenken (2006) describe evolutionary economics as a theory of economic change and adjustment in the time-space distribution of routines; evolutionary economics focuses on

processes, caused by radical or incremental changes, which in turn create imbalances. This illustrates the influence of path dependency, causing that some technological developments cannot be implemented because the firm has followed another 'path', using its routines to be able to follow this 'path'. According to evolutionary economics, a firm's behaviour is considerably dependent on its specific historical experiences. These routines determine the possibilities, but especially the constraints of innovative behaviour (Boschma et al., 2002).

In 1982, Nelson & Winter's book *An Evolutionary Theory of Economic Change* was published, presenting an evolutionary model of economic growth. One of their principal ideas deals with the concept of bounded rationality to describe a firm's decisional behaviour. According to Nelson & Winter (in Boschma et al., 2002) firms mostly use their organisational routines to make decisions. Routines are developed through informal and formal decision-making procedures and lead to relatively predictable and risk-avoiding behaviour. Routine behaviour is present in firms because they operate in an environment where fundamental uncertainty, complexity and changes prevail. Moreover, bounded rationality influences the decisions economic actors take, so often they fall back on their routines.

Path dependency and routines make that firms are limited in their behaviour and thus have a limited adaptability too. This could lead to lock-in. Managers, firms or regional economies can be so much locked in specific activities, technologies, or industries for instance, that they do not notice other options. Consequently, they show suboptimal behaviour (Boschma et al., 2002).

The geographical aspect of EEG deals with spatial agglomerations and clusters of economic activities. While EEG pays attention to routines, decisional behaviour and innovation, these features occur within a spatial context, as do MNEs and subsidiaries. The emergence of spatial agglomerations is to be analysed in terms of the historically grown spatial concentration of knowledge inherent in organisational routines.

The influence of path dependency, routines and lock-in on evolution illustrates that firms are heterogeneous. Some have more access to information sources and are more embedded in relationships with other actors than others; the *relational assets* of firms can differ. Examples of relational assets are physical factors such as infrastructure, human capital, knowledge, networks and institutions. It is interesting to pay some attention to the concept of firms and their relations. The relational turn within economic geography deals with this and is connected to the EEG. A similarity of these two approaches is that both take economic actors (often firms) as the unit of analysis (Bathelt & Glückler, 2003; Boschma & Frenken, 2006). Secondly, both agree that economic processes are dynamic and path dependent. Thirdly, both acknowledge the importance of contextuality of human action. A difference is that the relational turn really focuses on the *interactions* of economic actors through a geographical lens. The EEG is a shift away from this, and focuses more on firm routines (Jacobs et al., 2010a). Since it was argued that Japanese subsidiaries have a local orientation and prefer agglomeration of their subsidiaries, one would expect local relationships to be important to Japanese subsidiaries.

The relational turn regards both regional economies and spatial systems (global networks) as relational and social constructs. These are constituted through continuous interactions and actor-specific practices and routines. According to Yeung (2005), firms within regional economies or spatial systems are also viewed as 'social constructs'. From a relational view the firm is "*an organisational unit bringing together diverse social relations in which actors in the firm are embedded. These relations may be interpersonal relationships, family linkages, or simply social ties* (Yeung, 2005, p. 309). This suggests

that the firm is constituted by the broader relations of individual actors, at the same time defining the boundaries of the firm. Firms are bounded by certain obligations, which are carried out through specific social relations among actors within the extended boundaries of the firm. The firm then, is the organisational unit to coordinate these social relations of specific actors. This relational view acknowledges an important role for social actors and their embedded relations.

In chapter 2 it was argued that capabilities are the subsidiary's capacity to develop resources and that many MNE resources and capabilities are developed at the subsidiary level. To some extent, these are gathered as organisational routines that have been developed over time (Birkinshaw & Hood, 1998; Birkinshaw & Pedersen, 2005). Researching organisational routines will reveal organisational capabilities, which are embedded in the interactions and relationships of social actors and intra-firm networks. Besides intra-firm networks, firms can also constitute inter-firm networks and extra-firm networks. In the late 1990s the focus of the relational turn started to change from a rather inward-looking perspective to a rather outward-looking perspective, including inter- and extra-firm networks. By means of specific organisational structures and processes, social actors can develop core competencies through *intra-firm networks*. Examples of these competencies are firm-specific knowledge, social capital, and organisational innovations. These competencies contribute to a HQ's and subsidiary's corporate culture. Social actors may also develop *inter-firm networks*, influencing the local embeddedness. Actors in different firms can form trust relationships, for example between a subsidiary and its subcontractors. Both intra- and inter-firm networks could strategically strengthen subsidiaries and consequently enhance the overall performance. Finally, *extra-firm networks* may also influence the governance of firms. These networks, consisting of nation states, firms, research institutions, local authorities and non-governmental organisations, could facilitate special incentives and privileges to firms (Yeung, 2005). The interaction within and between inter- and extra-firm networks could be called *strategic coupling*. The term is explained by Jacobs et al. (2010b). Strategic suggests that the intervention or interaction is pro-actively planned by one of the actors. Besides, the process of strategic coupling does not continuously occur and might involve changes. These changes depend on the economical, cultural and historical characteristics of the environment in which subsidiaries operate and interact. Strategic coupling can occur at different places and in different ways, depending on the supply (and demand) of the relational assets present in an environment.

This thesis will apply an evolutionary perspective in the arena of MNEs. This is relevant because of the unique organisational composition of a number of subsidiaries located in a variety of distinct environments (Madhok & Liu, 2006). Both the environment and subsidiaries transform slowly, reflecting a dynamic co-evolution with their host environment and other actors. The following section will elaborate on the local host environment in the development of routines, knowledge and the 'creation' of embeddedness.

### **3.2 Focus on the local host environment combined with mainstream views**

Chapter 2 ended with criticism on the mainstream views on subsidiary evolution. The determinants mentioned however, are acknowledged to be all of significance for subsidiary evolution. The focus of the EEG approach, is slightly different; the importance of the environment of subsidiaries has been illustrated in section 3.1. This section 3.1 has also shown that EEG describes economic development of subsidiaries (and firms) as

changes in the time-space distribution of routines. Routines are developed through knowledge built up in the past. It is relevant to shed light on knowledge creation and development in relation to the local environment since it has been argued that subsidiary evolution is dependent on these concepts. Related to this is the concept embeddedness, this will also be elaborated.

### **3.2.1 Routines and knowledge**

While the mainstream literature shows the importance of subsidiary mandates and capabilities, which are partially developed by knowledge, the EEG increasingly focuses on issues of innovation and knowledge transfers, captured in subsidiary's routines. A subsidiary's knowledge base is important as a source of competitive advantage, and can be defined as a subsidiary's resource. This resource can be divided into two types: codified or explicit knowledge and tacit knowledge. While codified knowledge is often described as the kind of knowledge almost instantly available to all firms at all locations, and has the attributes to be articulated and printed, Bathelt et al. (2004) nuance this. They state that decisions and investments are needed to attain knowledge existing elsewhere. Moreover, this knowledge only becomes valuable if combined with knowledge embedded in a local environment in tacit forms. Tacit knowledge is inextricably intertwined with experiences and contexts of specific situations. It is inferred from (inter)actions of individual actors (Adenfelt & Lagerström, 2006).

Knowledge development, as part of subsidiary development, is a multilevel phenomenon. Existing knowledge, shared practices and routines are understood and shared in the MNE at various degrees (Adenfelt & Lagerström, 2006). Each subsidiary occupies a particular niche, both in its local host environment and within the MNE. Knowledge can be acquired from actors in the local host environment. This environment can be seen as a relational arena in which subsidiaries are able to increase their knowledge stock. It may also happen the other way around: the host environment's knowledge stock can change due to the presence of a subsidiary in a specific environment.

Evolution of subsidiaries in a specific environment and knowledge within both subsidiaries and environments are interdependent: pressures put forth by other subsidiaries, firms or governmental entities are drivers of environmental changes, which in turn enforce selection pressures on the subsidiary in a given market. Also, the knowledge stock of the subsidiary can change the role of the subsidiary, being either a sender or recipient of knowledge. This leads to changes in capabilities, routines, and mandates, for example. The importance of the subsidiary can change too because knowledge (as a resource) partially determines a subsidiary's autonomy (Madhok & Liu, 2006).

Knowledge intensive business services (KIBS) are an interesting group of actors that stock knowledge. The definition of KIBS used in this research is derived from Den Hertog (in Muller & Doloreux, 2009, p. 65):

KIBS are private companies or organisations that rely heavily on professional knowledge, i.e., knowledge or expertise related to a specific (technical) discipline or (technical) functional-domain to supply intermediate products and services that are knowledge based.

The definition stresses the presence of professional and intensive knowledge within these business services and the function to supply other organisations which have expertise in specific products or services with their knowledge. KIBS are able to receive information from outside the firm and to combine this with firm-specific knowledge, resulting in



useful services for their customers. Examples of KIBS are tax and accounting related services firms. Subsidiaries are an example of clients that insource, i.e. obtain, knowledge from KIBS. The knowledge provided by KIBS includes a high degree of tacit knowledge, so KIBS contribute to the tacit knowledge base of subsidiaries. However, it is not true that KIBS are only knowledge suppliers and their clients are the receivers. Besides being knowledge suppliers, the knowledge they possess results from a co-production process involving their clients; constituting a two-way process (Muller & Doloreux, 2009).

The importance of KIBS can be measured by analysing their contribution to innovation in their local host environment. Exchange of knowledge through interactions leads to the development of subsidiaries' (tacit) knowledge base, and consequently has an impact on subsidiaries' autonomy. More autonomous subsidiaries lead to higher levels innovative behaviour (Paterson & Brock, 2002). Spatial proximity of KIBS is a necessary condition for subsidiaries to utilise KIBS' knowledge and services (Muller & Doloreux, 2009).

### **3.2.2 Routines and embeddedness**

The EEG approach argues that subsidiaries and (relationships with) actors in their local host environment constitute a certain co-evolution. Embeddedness is a process in this co-evolution which strengthens the sustainability of the presence and the direct and indirect effects of FDI in an environment. More specifically, spatial embeddedness emanates from a cumulative process of investments and mutual adaptations in the diverse relationships between firms and their host environment. When firms are well embedded, the chance that they will leave the host environment becomes restricted. One would suggest then, that Japanese subsidiaries become increasingly embedded as they remain located in the same agglomeration.

Embedded subsidiaries often contribute more to the competitiveness and innovativeness than less embedded subsidiaries (Wintjes, 2005). This would suggest that the Dutch government should stimulate subsidiaries to embed in their local host environment. Two assumptions, based on the EEG approach and the relational turn, explain the importance of embeddedness. First, a subsidiary can absorb new knowledge from the host environment because of the closeness in relationships with other actors. Second, as within firms, also within business relationships innovative behaviour is present. These assumptions are related; closeness in relationships is a prerequisite for relation specific innovations. Therefore, a subsidiary's degree of local embeddedness indicates its degree of innovative behaviour (Andersson et al., 2005).

Like the EEG perspective, the concept of embeddedness also illustrates a dynamic perspective on subsidiary evolution: positive effects of embeddedness especially take place on long-term. On short-term MNE subsidiaries do not embed themselves in host environments. When unfavourable economic conditions come up, they will relocate relatively easy. Location-specific factors, i.e. relational assets, are also necessary to generate a long-term positive effect of inward FDI on a specific agglomeration. These factors will stimulate the subsidiary to increase its embeddedness by committing itself to the host environment (De Propriis & Driffield, 2006). This demonstrates the impact of path dependency: a foreign subsidiary can be restrained in its actions and movements by choices made in the past and by interactions with other actors in its environment. This implies that subsidiaries cannot act fully rational and that they will establish network relationships (Wintjes, 2005).

Bathelt et al. (2004) argue that spatial clustering of economic activity is related to the spatiality of knowledge creation. To create knowledge and innovation, interactive processes between different actors of different firms are needed. Moreover, according to

Rugman (in Westney & Zaheer, 2008), knowledge transfer is made easier for MNE subsidiaries within regions than across them. In addition to this, the presence of MNE subsidiaries within agglomerations may stimulate an increase in technology transfers and capabilities because MNEs desire to get access to key competencies in the host environment, which is also called 'knowledge sourcing': "*the interest in tapping into the local technology and accessing local knowledge networks*" (De Propriis & Driffield, 2006, p. 280). With this, Bathelt et al. (2004), Westney & Zaheer (2008) and De Propriis & Driffield (2006) show the direct and indirect influence of the local environment on subsidiary's routines and vice versa.

Agglomerations enable spatial proximity between subsidiaries and other economic actors. Spatial proximity is a prerequisite for the embeddedness of actors in their local host environment. The degree of embeddedness can differ, depending on the activities carried out by the subsidiary. This has to do with the extent to which investments are needed to start or expand subsidiary activities. The size and age of the subsidiary also influence whether sequel investments will take place. Foreign subsidiaries particularly grow when they are relatively small and young.

### **3.3 Conceptual framework**

Sections 3.1 and 3.2 have argued why applying the EEG is relevant in considering subsidiary evolution. Much of the mainstream views can be used, but as was argued, the IB literature on subsidiary evolution lacked at some points. This section will demonstrate the approach developed on subsidiary evolution, combining the mainstream views with EEG views, including aspects of the relational turn. This resulted in a conceptual framework. This conceptual framework consists of a dependent factor and several independent factors constituting causal relationships. The dependent factor corresponds with the main subject of this thesis, subsidiary evolution. This is determined by several independent factors, the determinants of subsidiary evolution and related attributes of these determinants. Figure 3.1 (on page 35) illustrates the conceptual framework developed.

The conceptual framework acknowledges that subsidiary evolution is driven by three determinants, as the mainstream literature argues; the HQ's business, the subsidiary's choices and the local host environment. The framework shows dynamic causal relationships between different factors. Subsidiary evolution is characterised by a positive (↑ indicating a gain) or negative (↓ indicating a loss) development of the activities, product and market scope, scale, and mandates. Instead of gain or loss, maintenance is another possible development of one of these factors, this is indicated by a dash (-).

The three determinants are characterised by specific attributes. The HQ's way of doing business is influenced by initial competencies, parent management ethnocentrism, the decision-making authority, the strategy chosen or developed, and the corporate culture. Also an external factor, global developments, has been argued to influence the HQ's business.

The subsidiary's choices are influenced by the degree of taking initiatives, developing autonomy (both are aspects of the subsidiary's entrepreneurial culture), and the subsidiary's reputation as viewed by the HQ. Resources and competencies (i.e. capabilities) are underlying these characteristics: at *some* point in time, a subsidiary has 'initial' resources that constitute 'initial' competencies; thus, developed internally. The relationship between the HQ and the subsidiary is illustrated by the transfer of routines

(see routines (1)); HQ characteristics are underlying HQ routines, which are subsequently adopted by the subsidiary and visible in the subsidiary's corporate culture.

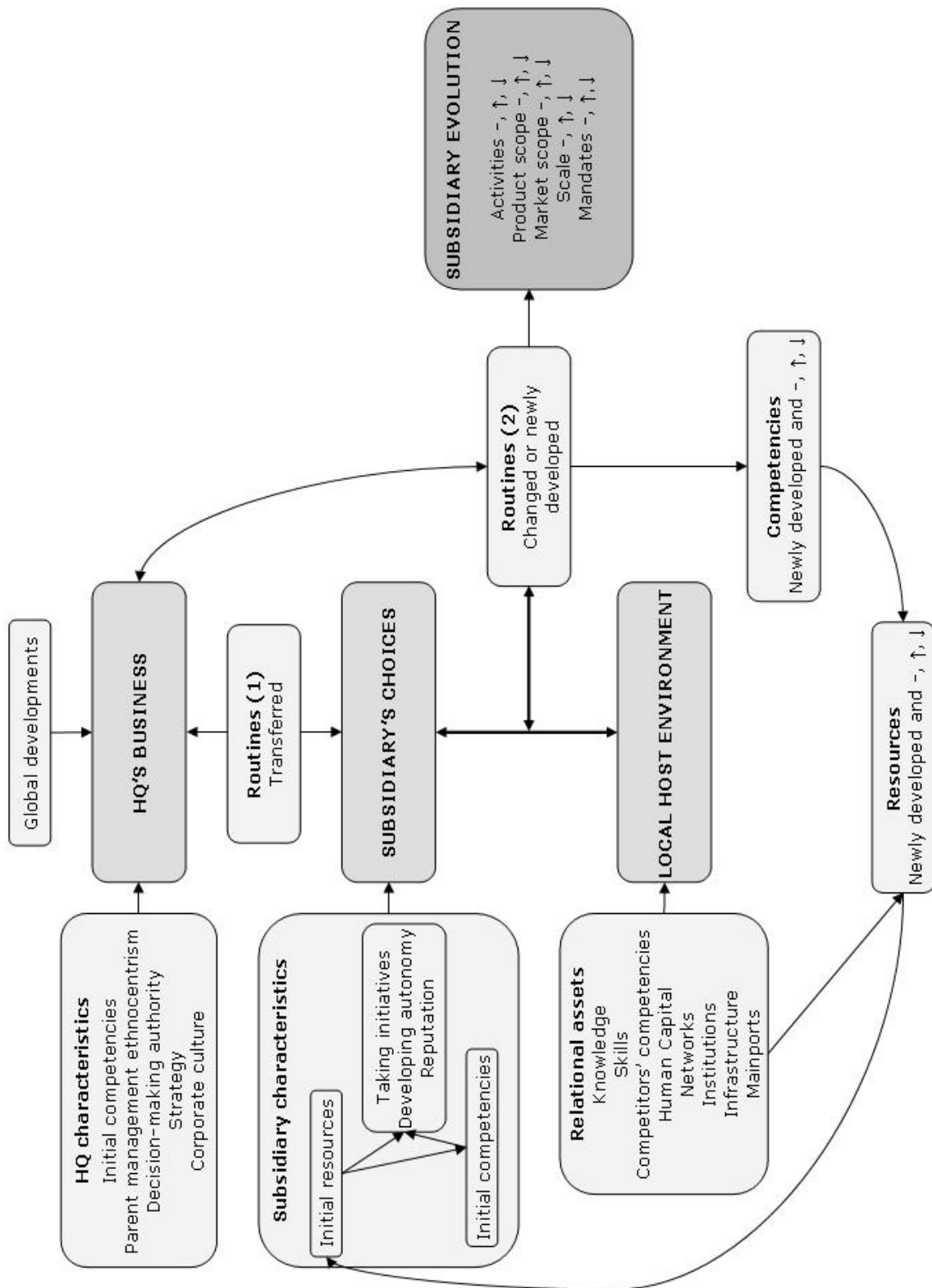
Several relational assets, such as knowledge and skills present in organisations, competitor's competencies and physical characteristics like infrastructure, form the characteristics of the subsidiary's local host environment (or 'relational arena').

Of the three determinants of subsidiary evolution, the local host environment is illustrated to play an important role. This has not been acknowledged by the mainstream literature but the EEG approach provides valid arguments for the importance of the local host environment. The interactions in the form of 'strategic couplings' between (actors in) the subsidiary's local host environment and the subsidiary itself, constitute co-evolution and are central in the process of subsidiary evolution. This is illustrated by the thick vertical arrow pointing both up and down. The co-evolution between (actors in) the local host environment and subsidiary's choices was explained by Delany (2000) in section 2.2.2; relational assets, constituting the strategic market i.e. local host environment, influence a subsidiary's initiative-taking for instance.

The framework also illustrates that co-evolution between the subsidiary and its local host environment constitutes routines (see routines (2)), which are changes in existing ones (routines (1)) and/or the development of new routines. These routines originate in the 'initial' resources and competencies and could be a collection of competencies. These routines are important contributors to subsidiary evolution. Routines (2) are not only changed or newly developed as described above, but could also have been directly developed by the Japanese HQ (indicating path dependency). In turn, these routines could influence the HQ's business again, for example through changing the HQ's strategy. Moreover, routines (2) could develop new competencies and new resources (these can be either maintained, gained or lost). The latter could also be developed by certain relational assets. Then, these new resources will function as 'new initial' resources, namely at *another* point in time. Then, the process could take place again.

The explanation of the conceptual framework as described above is presented as being dynamic. It has been demonstrated and explained that there is a significant interdependence between several factors; changes in one factor might influence other factors and vice versa, indicating a continuous evolutionary process of subsidiary development. This also illustrates path dependency, which has been argued by the EEG as being an important aspect within subsidiary evolution. The development of a subsidiary much depends on experiences and (economic) events and changes in history, be it on HQ or subsidiary level.

**Figure 3.1 Conceptual framework.**



### 3.4 Hypotheses

From the information in chapters 2 and 3 and the conceptual framework, hypotheses can be derived and formulated. The hypotheses are related to the elements of subsidiary evolution. The aim of these hypotheses is to combine characteristics of subsidiary evolution that have been mentioned in the mainstream and EEG literature with the literature on Japanese subsidiary characteristics, in order to set some expectations for the empirical research. Because the empirical research includes a small number of cases, really accepting or rejecting the hypotheses is not possible, rather indicating (in chapter 5) whether the findings are in line with the hypotheses. The following hypotheses have been developed:

1. *Japanese subsidiaries that are characterised by routines in the form of the Japanese decision-making system of *nemawashi*, rather extend existing mandates than develop new ones;*

The literature review has shown that characteristics of Japanese *nemawashi* decision-making are achieving overall consensus and deciding on the long-term. The latter could indicate certain risk-averse behaviour. When these characteristics are visible in the decision-making authority of the subsidiary, it would suggest that the subsidiary has adopted routines of the HQ; then, these characteristics indicate a substantial influence of the HQ on the subsidiary. As a result, scaling up and increasing the market scope would be relatively more important than developing new mandates because this generally is less risky.

2. *Japanese HQs that apply 'loose control structures' to their subsidiaries, allow their subsidiaries more freely to initiate new activities than when these structures are not applied;*

Japanese MNEs are characterised by 'loose control structures' (Westney, 2008). This means that the subsidiary can be more independent, which could positively influence the degree of autonomy within the subsidiary. Consequently, this enables new activities to be initiated in order to meet the demands in their market.

3. *When a Japanese subsidiary is predominantly managed by Japanese expatriates, the position of a Japanese subsidiary within the MNE could increase less over time than when the management's nationality is predominantly European;*

When the subsidiary's upper management (partially) consists of Japanese expatriates, communication with the HQ is easier and will be more frequent. As a result, the relationship with the HQ is stronger because the HQ's influence might increase and the HQ will keep abreast of the subsidiary's operations. This could restrict the positive development of autonomy and certain market chances; the position of the subsidiary is expected to increase less than when the level of independence is higher. This level is expected to be higher when the management's nationality is rather European than Japanese.

4. *When the decision-making authority is decentralised, the Japanese subsidiary rather gains mandates over time than when the decision-making authority is rather centralised;*

When decision-making authority is decentralised, the subsidiary itself takes important decisions about the subsidiary's operations. Consequently, the subsidiary would also take initiatives, which could result in an increase in its mandates or the development of new mandates.

- 5. Within Japanese subsidiaries with more HQ routines reflected in their corporate culture, less changes in activities (i.e. the adding or removing of activities) will occur than within Japanese subsidiaries with less HQ routines reflected in their corporate culture;*

Typical Japanese HQ routines are being risk-averse to some extent, having a long-term vision, and taking well-considered decisions (Westney, 2008; Wolfe, 1992). These characteristics impede changes in (main) activities. So, when these routines are adopted by the subsidiary, there will be less change in the subsidiary's (main) activities.

- 6. When the Japanese HQ's concern for 'local orientation' increases within their Japanese subsidiary during its evolution, the importance attached to 'relational assets' of the local host environment will also increase over time;*

Westney (2008) argued that Japanese MNEs are characterised by local orientation, which implies adapting to and having knowledge of the local market and the local host environment. An MNE can choose to establish one subsidiary with a market scope ranging several countries, but another possibility is to establish local subsidiaries in many countries, every one of these being responsible for its national market. When the latter is the case, it is expected that relationships with economic actors in the subsidiary's local host environment are important. When this local orientation becomes increasingly important, then relational assets within the local host environment are expected to become increasingly important too.

- 7. The importance of relationships with a 'knowledge insourcing' function within a local host environment will increase as a Japanese subsidiary remains located in one location;*

Aspects of the mainstream IB literature and the EEG approach have illustrated that in the beginning, subsidiaries are developing their activities and mandates and start to get to know the environment. When subsidiaries increasingly embedded themselves within their local host environment, they have more knowledge of the relational assets (e.g. other economic actors) present within their host environment. As a result, functional specialisation based on knowledge could occur and consequently, the insourcing of knowledge could increase.

### **3.4.1 Making the concepts operational**

Making the concepts operational is transforming the terms mentioned in the hypotheses above into (more or less) measurable terms (Baarda & De Goede, 2006). For each hypothesis, the definition of the concepts to be researched will be defined and made operational.

- 1. Japanese subsidiaries that are characterised by routines in the form of the Japanese decision-making system of nemawashi, rather extend existing mandates than develop new ones;*

This hypothesis can be explored through asking for the decision-making procedures within the subsidiary. Who takes important decisions, how is this process characterised, does the subsidiary take initiatives? These are examples of questions to find out whether the system of *nemawashi* is adopted by the subsidiary. Furthermore, in the interviews is asked for the mandates, i.e. the responsibilities the subsidiary has and the changes in mandates over time. When changes have taken place, it is asked whether this has led to changes in the decision-making procedure.

2. *Japanese HQs that apply 'loose control structures' to their subsidiaries, allow their subsidiaries more freely to initiate new activities than when these structures are not applied;*

In chapter 2 it was explained that 'loose control structures' give opportunities to subsidiaries, they are to some extent 'free' to decide and take initiatives. The way procedures of decision-making are explained by the interviewee and the composition of the upper management in terms of nationalities could identify loose control structures. When decision-making is more decentralised, the subsidiary is less dependent. Besides, the interviewees are asked to describe the subsidiary's position within the MNE and the changes in this position. Also, questions are posed regarding changes in the (main) activities carried out, whether new activities have been initiated.

3. *When a Japanese subsidiary is predominantly managed by Japanese expatriates, the position of a Japanese subsidiary within the MNE could increase less over time than when the management's nationality is predominantly European;*

To test this hypothesis, the interviewees are asked for both the current and past composition of the upper management in terms of nationalities, in order to get an overview of the changes in upper management nationalities over time. Information is also obtained about the current position of the subsidiary within the MNE and changes experienced in this.

4. *When the decision-making authority is decentralised, the Japanese subsidiary rather gains mandates over time than when the decision-making authority is rather centralised;*

Questions regarding the procedures of decision-making, especially aimed at who takes decisions, and the analysis of (changes in) mandates and responsibilities, will test this hypothesis. This hypothesis follows the same operationalisation as hypothesis 1.

5. *Within Japanese subsidiaries with more HQ routines reflected in their corporate culture, less changes in activities (i.e. the adding or removing of activities) will occur than within Japanese subsidiaries with less HQ routines reflected in their corporate culture;*

Information obtained from as well the key informants as the subsidiaries interviewed, contributes to the testing of this hypothesis. The key informants are asked for trends and patterns which are typical for Japanese subsidiaries in the Netherlands. During the interviews with the subsidiaries, typical procedures are identified in order to get understanding of the subsidiary's routines and underlying resources and capabilities. This is done by asking for the qualities, or key competencies, and the subsidiary's gauges of

success, in particular. Also questions regarding the (changes in) activities are posed. Routine behaviour was detected by the interviewee's explanations of repeated procedures and actions, for instance.

6. *When the Japanese HQ's concern for 'local orientation' increases within their Japanese subsidiary during its evolution, the importance attached to 'relational assets' of the local host environment will also increase over time;*

In chapter 2, local orientation was described as adaptation to the local market and explained as Japanese subsidiaries willing to make concessions to local interests, in order to get market entry. Whether a subsidiary is characterised by local orientation is explored through questions related to the relationships the subsidiary develops within its local host environment and whether these relationships have become more or less important. Also, in the interviews is asked how these relationships are established. Furthermore, it is investigated whether the MNE has many local subsidiaries with a 'local' market scope. The changes in the composition of the upper management in terms of nationalities (namely a transition to a more European management) might also indicate an increasing local orientation.

7. *The importance of relationships with a 'knowledge insourcing' function within a local host environment will increase as a Japanese subsidiary remains located in one location;*

'Knowledge insourcing' can be defined as 'the receiving of knowledge' from a knowledge supplier. In this case, the Japanese subsidiary is the recipient, while KIBS for example are suppliers of knowledge. This process constitutes a relationship between the two which could be called a 'strategic coupling'. To test this hypothesis, it is explored whether the subsidiary constitutes relationships within the local host environment, what the function is of these relationships and whether these relationships have become more or less important. It is also asked whether the subsidiary has become more functionally specialised over time.

The development of a conceptual framework and hypotheses function as an 'intermediary' between the literature review and the empirical research to be conducted. The conceptual framework has been developed to illustrate the characteristics of Japanese subsidiary evolution and the determinants for possible evolutionary paths in particular. The next chapter will explain the data developed and methods used for the empirical research.



## **4 Data and methodology**

The extensive literature review and the introduction of the EEG approach have resulted in several hypotheses. The research questions and the hypotheses form the basis for the qualitative research of this thesis and will eventually provide answers to these research questions.

Data can be collected in three ways: (1) using existing information, (2) obtaining data via written or oral interviews and (3) through observations (Baarda & De Goede, 2006). The first two methods are applied in this thesis. Firstly, existing information of Japanese subsidiaries is used, including information from the Japanese Chamber of Commerce (JCC), the Japan External Trade Organization (JETRO), an existing database, and the internet (mostly MNE's and subsidiary's websites). Secondly, data is obtained through conducting in-depth, semi-structured interviews. In section 4.1, information will be given about the data that provides a basis for the empirical research in this thesis and procedures of the collection of data are explained. Section 4.2 describes and argues the research designs chosen and the corresponding methodology. Attention is also paid to the way subsidiaries are selected. Section 4.3 elaborates on the key informants and Japanese subsidiaries that have been interviewed and the contents of the in-depth, semi-structured interviews. The chapter closes with section 4.4, shedding light on shortcomings of the empirical research.

### **4.1 Data**

#### **4.1.1 Secondary data collection**

Secondary data was used in order to be able to develop a database of Japanese subsidiaries in the Northwing of the Randstad. The main source for this database is a directory of the publisher *Toyo Keizai Inc.*. Subsection 4.1.2 will further elaborate on this directory. Besides, information on the MNE's websites was used as a valuable source. These websites mainly provide information about the 'company profile', their main activities and the industry the MNE belongs to. Some comparisons have been made with other secondary sources (firms that have developed similar databases about foreign investments) but this has demonstrated that there exists much variety among the different databases with respect to the data collected. Therefore, the directory of *Toyo Keizai Inc.* was used as the main (secondary) source.

#### **4.1.2 Japanese MNE subsidiaries**

The population from which Japanese subsidiaries have been interviewed as part of the empirical research is as follows: all Japanese subsidiaries present in the Northwing of the Randstad, the Netherlands, in 2009. This population varies in terms of industry, activities, scope, degree of autonomy et cetera.

There are several organisations that have identified data about foreign firms in the Netherlands. It is important to mention that the data differ among databases; lists of subsidiaries never are completely comprehensive, up-to-date, and accurate. Therefore, for this thesis one main source of information has been used: most data has been derived from the *Kaigai Shinshutsu Kigyō Souran*; "Directory of Japanese Companies Abroad", published by *Toyo Keizai Inc.*. In this directory Japanese MNE subsidiaries are listed per host country in which the subsidiary is established. This directory provides the

basis of the database that has been produced for this thesis in order to get an overview of Japanese MNE subsidiaries located in the Netherlands between 2000 and 2009. The subsidiaries located in the Northwing of the Randstad were selected and are particularly useful for this research.

The "Directory of Japanese Companies Abroad" of *Toyo Keizai Inc.* provides information about the name of the subsidiary, contact details, year of establishment, total number of employees, number of expatriate employees, turnover, balance sheet and activities carried out. Turnover and the balance sheet are not recorded in the database produced for this thesis, respectively because it was not relevant to use this information, and since –in 2009- this information was only available for less than ten Japanese subsidiaries.

According to the database developed for this thesis, it can be concluded that a total of 420 Japanese subsidiaries were present in the Northwing for at least one year in the ten years period from 2000 to 2009. As at 2009, 360 Japanese subsidiaries were actually present in the Netherlands, whereof 236 were located in the Northwing. 116 of these 236 subsidiaries, have been located in the Northwing for at least ten years (*Toyo Keizai*, 2000-2009). Note that the number of subsidiaries includes many *holdings* also, which are often subsidiaries with zero employees. Section 5.1 further elaborates on key characteristics of Japanese MNE subsidiaries.

#### **4.1.3 The Northwing of the Randstad, the Netherlands**

The Netherlands, due to its strategic location and facilities, is used not only to supply the Dutch market, but also other European markets (Hogenbirk & Van Kranenburg, 2006). The Randstad, based in the west of the Netherlands, is widely known as the polycentric economic core of the Netherlands. The Randstad is divided into a 'Northwing' and a 'Southwing'. The Northwing is an area consisting of two conurbations, Amsterdam and Utrecht, and several smaller cities.

The Northwing of the Randstad is characterised by a distinctive profile of services (including trade, logistics, financing, publishing et cetera), an advanced and varied client-base (companies and individuals), HQ functions, KIBS, networks, FDI flows and international trade (Den Hertog, 2009). However, Den Hertog also observes some concerns, including the productivity of business services and the development of the size and nature of HQ functions.

The selection of subsidiaries in this thesis consists of Japanese MNE subsidiaries located in the Northwing of the Randstad. About 66% of all Japanese subsidiaries in the Netherlands in 2009 (360) is located in the Northwing (236).

Figure 4.1 shows the municipalities included in the Northwing of the Randstad, stretching from Haarlem, to Amsterdam, Utrecht, Amersfoort, including Almere and the Schiphol area. An exact geographical demarcation of the Northwing can be found in appendix 1.

**Figure 4.1 The demarcation of the Northwing of the Randstad in the Netherlands.**



**Source: Van der Groep et al., 2008, p. 11.**

## **4.2 Methodology**

### **4.2.1 Research designs**

A research design provides a framework for the collection and analysis of data. In this thesis, two designs will be applied on two levels. A case study design will be applied as the main research design, which will be on 'micro' level, i.e. the interviewing of subsidiaries. On 'macro' level, a longitudinal design will be applied. The database developed will form the main source for the 'macro' analysis of Japanese subsidiaries in the Northwing in the period 2000-2009.

The term 'case' associates the case study with a location, such as a community or an organisation. The emphasis tends to be upon an intensive examination of the setting (Bryman, 2008). Doing a case-study is appropriate for this research because academic research about Japanese subsidiaries in the Northwing of the Randstad in particular, does not exist. A less 'intensive' form of collecting data would not enable to develop new and useful insights, whilst through a case study this can be gained (Birkinshaw et al., 2005). Moreover, a case study is also an appropriate design for this research because it enables to capture the complex interactions among economic actors and understand dynamics of organisational processes. Through case studies causal relationships can be identified. According to Chang & Rosenzweig (1998) case studies are particularly well suited to research areas for which existing theory is poor or seems inadequate. A case study on subsidiary evolution will be very useful to illustrate to what degree the different determinants are important. By analysing the evolution of Japanese subsidiaries in their local host environment, in this case the Northwing of the Randstad, and the strategic couplings they develop, the importance of this determinant can be illustrated.

The longitudinal part of the empirical research is mainly based on the database that has been developed. A longitudinal design is typical in human geography and it is usually combined with another research design (Bryman, 2008). Within this thesis, the longitudinal perspective will be derived from the database facts on the one hand and historical information about the subsidiaries interviewed on the other. As far as the former is concerned, over a period of ten years (2000-2009) this database provides information about the location of the subsidiary, the number of employees (including Japanese expatriates), the subsidiary's industry and main activity, and the year of establishment. Section 5.1 will analyse findings of this database. As far as the latter is concerned, the information was both gathered during the interviews and by means of secondary data collection.

#### **4.2.2 Methods**

##### ***Deductive***

The methods used in an empirical research depend on the form of theories applied and whether the aim of data collection is to test or to build theories. The deductive approach is in essence starting with a theory, followed by observations (empirical research) and findings (analysis); in essence, its aim is to test theories. The inductive approach is in essence the other way around; general conclusions are drawn out of observations; in essence, its aim is to build theories (Bryman, 2008). The research in this thesis is mainly deductive in nature. More specific, the process of deduction is (1) describing a theory/theories, in this thesis mainstream views and the EEG approach, (2) deducing hypotheses from it, (3) collecting data, (4) describing findings, (5) analysing hypotheses and finally (6) revising the described theory/theories. No formal testing can take place however, so practically and accurately describing the findings is the way the empirical data will be analysed. No real testing means that revising the described theory/theories is not really realised.

##### ***Qualitative research***

Qualitative research is the research strategy most often used for case studies. Methods like in-depth interviewing are viewed as particularly helpful in generating intensive detailed examination of cases (Chang & Rosenzweig, 1998). Qualitative research is concerned with words rather than numbers (Bryman, 2008).

The database that has been developed for this thesis is longitudinal in nature; it provides information about Japanese subsidiaries over a period of ten years. By collecting secondary data, the database was refined to the extent possible. The database produces quantitative information. When the qualitative method, the interviewing, in proportion to the more or less quantitative method is taken into account, the former takes a bigger share in the empirical research than the latter. A research strategy being qualitative in nature and using the method of in-depth, semi-structured interviewing, is relevant in this research because this method produces rich and detailed answers and focuses on the perspective of the interviewee (Bryman, 2008).

##### ***In-depth, semi-structured interviewing***

Above it was argued why qualitative research would be appropriate in this thesis. Interviewing is one of the qualitative research methods. When applying in-depth, semi-structured interviews, extensive and detailed information will be obtained. Another advantage is the possibility to depart from the interview guide and having the flexibility to ask follow up questions on specific answers of the interviewee (Bryman, 2008). The interviews conducted contain both open-ended questions and semi-structured ones.

Using a semi-structured questionnaire assists in asking for important information and has the effect that the interviewee is guided towards essential issues without dedicating unnecessary time to less relevant topics and information. Moreover, the use of semi-structured questions simplifies the processing of the information obtained from the interviewees and enables to compare the various interviews in a structured manner. However, regard should be given to the fact that interesting information can spontaneously be given and obtained when the interview allows deviations from the predefined structured questions. Accordingly, sufficient time was reserved to elaborate on certain answers and topics. Each interview therefore provides information which is not necessarily obtained in other interviews, if not stumbled upon or asked.

The subsidiary information is held strictly confidential so the interviewees could speak freely. All interviews have been recorded and lasted about one hour per visit. The interviews were held in August, September, and October. The records of the interviews were worked out in Word. Subsequently, an overview of the answers was made in Excel in order to be able to make comparisons among the subsidiaries and to get an overview which simplified the analysis of the hypotheses.

#### **4.2.3 Selecting subsidiaries**

Qualitative research typically utilises *purposive sampling*. This type of sampling is essentially characterised by strategically selecting units or cases out of a population that best enables to answer the research questions being asked and meets the objectives (Bryman, 2008). For this thesis, the population concerns organisations, i.e. Japanese MNE subsidiaries in the Northwing of the Randstad, whereof the units to be interviewed are relevant persons within those organisations. The specific criteria of the interviewees will be described in subsections 4.3.1 and 4.3.2. Purposive sampling is a non-probability form of sampling. It is usually applied when working with small samples. It was tried to strategically select cases in order to ensure some variety in the resulting selection of subsidiaries (Bryman, 2008). The subsidiaries selected differ from each other in terms of key characteristics, such as industry, main activities and the number of Japanese expatriates in the subsidiary, either in upper management positions or not (see table 4.1).

The purposive sampling was partially applied by snowball sampling. The database developed for this thesis made available information about the Japanese subsidiaries present in the Northwing. Generally, Japanese subsidiaries can be reluctant to interviews so applying snowball sampling is useful for this research.

### **4.3 Subsidiaries and key informants selected and contents of the interviews**

#### **4.3.1 Japanese MNE subsidiaries interviewed**

Subsection 4.2.3 already mentioned the process of snowball sampling. Several people (friends and family) were contacted by email whether they had connections with people working in one of the Japanese subsidiaries in the Northwing. Since there is variety in the key characteristics of Japanese subsidiaries and they could be reluctant to interviews, this method was useful to start with.

A number of in-depth interviews has been conducted at Japanese MNE subsidiaries in the Northwing of the Randstad. Some criteria have been applied for selecting the individuals to be interviewed in order to be able to answer the research questions and to analyse the hypotheses. The first criterion is that the interviewee must be or have been a

member of the upper management. The interviewee must have substantial insight in the general management procedures and the operations of the subsidiary. Moreover, the desire to obtain objective information is best fulfilled by upper management members. The second criterion is that the director would have been employed at the subsidiary for at least several years. The number of years is not strictly determined, but if the potential interviewee has worked at the subsidiary for less than four years for instance, it was checked whether he would have sufficient insight in and knowledge of the operations and roles of the subsidiary by asking whether he has knowledge of the relevant historical developments of the subsidiary. This was felt important as the questions aim to address issues that relate to the long-term development of the Japanese subsidiary. This was a kind of double check, because it was experienced that at the start of the phone call, when the content of the interviews was explained, the potential interviewee spontaneously judged whether or not he would have sufficient knowledge to be able to answer the interview questions. If this was indeed the case and if the potential interviewee also was or had been a member of the upper management, then the selection criteria were met for an interview.

Three appointments for an interview could be realised through snowball sampling. Another method used was searching for director's names of relevant Japanese subsidiaries on the internet (Linkedin and Google). When names were found, the subsidiary was contacted by telephone and attempts were made to connect with the particular director. Five appointments have resulted from this method. Also, subsidiaries were contacted without knowing a name of any of the directors. This method was expected to get the lowest result. Three more interviews could be conducted via this method.

All subsidiaries were contacted by telephone first. Subsequently, information about the research and an outline of the content of the in-depth interview was sent by email. It was experienced that suggesting an interview with a Dutch member of the upper management was easier than with a Japanese expatriate. As a result, interviews have been conducted with Dutch directors only.

Eleven interviews with Japanese subsidiaries have been conducted in total. Priority was given to subsidiaries located in the Northwing for at least ten years. Moreover, it was tried to select Japanese subsidiaries from different industries, operating different activities and different proportions with respect to the number of Japanese expatriates within the subsidiary, in order to represent heterogeneity of the subsidiaries. Information about the interviewees (fifteen in total) is found in appendix 2.

As mentioned before, the database based on *Toyo Keizai Inc.*, counts 236 Japanese subsidiaries in the Northwing in 2009 whereof 116 subsidiaries are located in the Northwing for at least 10 years. Chapter 5 will further analyse the findings from the research database. Table 4.1 (see next page) gives an overview of the subsidiaries selected for the in-depth interviews, including their most important characteristics. The table shows that most subsidiaries interviewed are a European HQ. In many cases, when both a Dutch and a European subsidiary is present in the Northwing, then the local subsidiary suggested to contact the European HQ. Their argument was that the regional (European) subsidiary would be much more interesting to interview, because they often have much stronger relationships with their HQ in Japan. Local subsidiaries owned by a regional HQ subsidiary in the Northwing often mainly have contact with this regional HQ and not as much with the Japanese HQ. This resulted in relatively many interviews with regional HQ subsidiaries, which is (one of) their main activity/activities. In total, eight European HQs were interviewed, two Benelux HQs and one local subsidiary. The subsidiaries differ in industry, although Business & Consumer Electronics is over-

represented. The number of employees including the number of Japanese expatriates differs among the subsidiaries. This could possibly illustrate differences in typical routines of subsidiaries.

**Table 4.1 The Japanese MNE subsidiaries with which in-depth interviews were conducted.**

Name of subsidiary	Location	Year and type of establishment at this location	Industry	Main activities	Market scope	Number of employees (no. of Japanese expatriates)	Parent
Canon Europa N.V.	Amstelveen	1988 (1968)* Greenfield	Business & Consumer Electronics	European HQ for Operations and ICT	EMEA	300 (30)	Canon Inc.
Hoshizaki Europe B.V.	Amsterdam	1992 Greenfield	Machines & Appliances	European HQ, Sales and Services	EMEA	17 (5)	Hoshizaki Electric Co., Ltd.
Kintetsu World Express (EA) B.V.	Hoofddorp	2006 (2001)* Greenfield	Transportation, Logistics and Warehousing	European HQ, Business Development & Warehousing	EMEA	10 (3)	Kintetsu World Express, Inc.
Koike Europe B.V.	Zaandam	1992 (1982)* Greenfield	Machines & Appliances	European HQ, Assembly, Sales, Distribution, Service	EMEA	27 (2)	Koike Sanso Kogyo Co., Ltd.
Ricoh Europe B.V.	Amstelveen	1971 Greenfield	Business & Consumer Electronics	European HQ for Product marketing and Services	EMEA + Russia and the Balkans	300 (30)	Ricoh Co., Ltd.
Sharp Electronics Benelux B.V.	Houten	1991 Acquisition	Business & Consumer Electronics	Benelux HQ, Sales and Services	Benelux	120 (1)	Sharp Corporation
Sigma Benelux B.V.	Nieuwegein	2000 (1991)* Greenfield	Consumer Electronics	Sales and Distribution	Benelux	8 (0)	Sigma Corporation
Yakult Nederland B.V.	Amstelveen	1996 (1994)* Greenfield	Food	Marketing & Sales	The Netherlands	19 (1)	Yakult Honsha Co., Ltd. (Yakult Europe B.V.)
Yamaha Motor Europe N.V.	Schiphol-Rijk	1993 (1968)* Greenfield	Automotive	European HQ for the coordination of M&S	Europe	225 (30)	Yamaha Motor Co., Ltd.
Yanmar Europe B.V.	Almere	1988 Greenfield	Machines & Appliances	European HQ, Production and Sales	EMEA	150 (12)	Yanmar Co., Ltd.
Yokogawa Europe B.V.	Amersfoort	2008 (1982)* Greenfield	Process industry for test & measurement, industrial automation	European HQ, Industry support on project basis, some Production	EA + Turkey	580 (10)	Yokogawa Electric Corporation

\* Year of establishment of this subsidiary

### **4.3.2 Key informants interviewed**

Four interviews were conducted with 'key informants', hence individuals, having significant knowledge about Japanese subsidiaries and their investments in the Northwing. For these interviews, one person of Yokogawa Europe B.V. was interviewed. This person has worked at this subsidiary since its year of establishment (1982) in the Northwing and is very knowledgeable about Japanese subsidiaries in general. The second person is the director of foreign investment at the Gemeente Amstelveen and director of the Amstelveen office of Amsterdam in Business. She is specialised in Japanese subsidiaries with respect to investor development. The third key informant is currently working as a 'project manager Asia & Europe' at Invest Utrecht (part of the Provincie Utrecht). The fourth and fifth key informants are the chairman of the Japanese Chamber of Commerce (JCC) and the executive director of the Japan External Trade Organization Amsterdam (JETRO). No doubt these two gentlemen are key representatives of the Japanese business community. The interviews with both of them have been conducted jointly. The aim of these four interviews is to 'verify' the outcomes of the interviews conducted with directors of Japanese subsidiaries and to provide insight in patterns of the development of Japanese subsidiaries in the Northwing. The information from the key informants is in particular relevant as well as only a small number of interviews could be conducted with representatives of individual subsidiaries. The key informants' findings will increase the validity of the subsidiaries' findings.

### **4.3.3 Contents of the in-depth interviews**

As was mentioned, eleven interviews with Japanese subsidiaries and four interviews with key informants about Japanese subsidiaries in the Northwing have been conducted. The contents of the interviews with the subsidiaries are based on the literature review, views of the EEG and the hypotheses developed.

The Dutch versions of questionnaires of both types of interviews can be found in appendices 3 and 5 respectively (and appendices 4 and 6 for the English translation). The structure of the interviews with the Japanese subsidiaries is as follows: first, some general questions are asked, whereof some of them could be completed prior to the start of the interview, by using information on the websites of the subsidiary and the MNE – HQ in Japan. These questions serve to sample the most basic characteristics of the subsidiary and the MNE, such as the core business of the parent, the number of employees, the industry, the location of the subsidiary, and the number of subsidiaries within the Netherlands.

Second, the focus is on the actual development (evolution) of the subsidiary, i.e. aspects representing the current and past characteristics of the subsidiary. Information is asked about the developments of the main activities of the subsidiary, the corresponding market scope, the relationship with the parent with respect to decision-making authority and initiative-taking, and the position of the subsidiary. Distinction has been made between the subsidiary's *current* characteristics and the *preceding* characteristics in order to be able to have insight in the developments or changes within these factors. This aspect is very important since this illustrates dynamics of the subsidiary; its evolutionary path.

Third, the questions focus on certain factors that are needed to come to the specific evolutionary path which has been described by the interviewee. The questions deal with the strategy and competencies (qualities) of the subsidiary, the influence of the present Japanese expatriates in the subsidiary and the degree of relationships with external local parties in the subsidiary's local host environment. Corresponding with the EEG views, the



focus in this part is on the degree of 'knowledge insourcing' compared to internal knowledge development, again considered in a dynamic way.

Note that throughout the whole interview, a dynamic approach has been applied. This is done by asking for the current situation and the situation at the start of the subsidiary (and by elaborating on changes in both situations). In particular, gathering information about routines is difficult but the questions are formulated in such manner that these could be identified. For example, asking the interviewee to describe the decision-making procedure could identify a routine.

The four interviews conducted with the key informants were performed by using an interview questionnaire with open-ended questions. The questions in particular related to trends being visible within the population of Japanese subsidiaries; changes in activities, scopes, decision-making, relationship with the Japanese HQ and the degree of autonomy when the subsidiary remains located or becomes increasingly embedded in the same local host environment.

#### **4.4 Shortcomings**

In this empirical research it is tried to get detailed information about historical developments of Japanese subsidiaries. In-depth interviewing is the most relevant method to get useful answers on the research questions posed in chapter 1. Some general patterns will be distinguished, which could be interpreted as typical for the evolution of Japanese subsidiaries.

The most important shortcoming in this research however, is the fact that a small number of cases has been interviewed. As a result, really *testing* the hypotheses is impeded. The small number of interviews, in combination with a database characterised by heterogeneity in Japanese subsidiaries in terms of some key characteristics, results in the fact that the outcomes of the interviews may not be representative for the whole population. Moreover, this research is a case study of Japanese subsidiaries in the Northwing. This means that the evolution of Japanese subsidiaries cannot be generalised to Japanese subsidiaries located in other regions per definition; answers could differ when they would have been located in another area.

There are some other shortcomings: Firstly, in-depth interviewing reflects the view of the interviewee, which always contains subjectivity to some extent. It is tried to analyse the interviews in an objective manner and omit subjective views as much as possible. Secondly, when asking about the subsidiary's evolution, it concerns a personal interpretation and there could be a difference between an interviewee's interpretation who has worked at the subsidiary since the establishment or for a few years only, for instance. This was inevitable however, only selecting directors working at the subsidiary for a very long period would have resulted in an insufficient number of interviews. Finally, the external reliability, the degree to which a study can be replicated, is generally difficult to meet in qualitative research. Because of anonymity of the interviewees, the transparency is restricted. It is important to describe the steps undertaken in the empirical research as specifically as possible in order to identify the procedures involved in the process of data collection and analysis (Bryman, 2008).

This chapter has described the process of data collection and the methodology used in the empirical research. Eleven in-depth interviews with Japanese subsidiaries and four with key informants serve as the major sources for the empirical research. Nevertheless, secondary data collection is also useful. The following chapter will extensively analyse the findings.

## 5 The evolution of Japanese MNE subsidiaries in the Northwing of the Randstad

The aim of this chapter is to analyse the results of the empirical research in order to be able to answer the research question posed in the first chapter.

First, section 5.1 starts with an analysis of the database that was developed with data from *Toyo Keizai Inc.*. Second, section 5.2 will describe the perspectives of the directors interviewed on the actual development of their subsidiary, sometimes referring to general patterns seen within the population of Japanese subsidiaries. This section starts with a short 'company profile' for every subsidiary interviewed (5.2.1), then it describes characteristics of actual developments (5.2.2) and it ends with an analysis of the determinants found in subsections 5.2.3 and 5.2.4. The latter elaborates on the local host environment in particular. Due to anonymity of the directors interviewed, the names of their subsidiaries will be used as reference, not their personal names. Third, section 5.3 focuses on the perspectives of the key informants on Japanese subsidiaries in the Northwing (and the Netherlands). According to the different subjects that were addressed in the interviews, an attempt is made to give an overview of characteristics of Japanese subsidiaries and their developments over time. Anonymity is also applied to these persons, the name of the organisation they belong to (Amsterdam in Business, JCC, JETRO, Invest Utrecht or Yokogawa Europe) will be used as reference. Finally, section 5.4 will give an analysis of the hypotheses that have been developed.

### 5.1 Analysis of the database developed

In order to create a 'context' around the information gathered from the key informants and subsidiaries interviewed, an analysis of the database developed for this thesis will be presented. Table 5.1 illustrates for every single year in the period 2000-2009 the total number of Japanese subsidiaries in the Netherlands, and the dynamics in terms of subsidiaries left and newly established.

**Table 5.1 Changes in the number of Japanese subsidiaries located in the Netherlands in the period 2000-2009.**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Total number of subsidiaries</b>	184	176	180	386	377	370	353	350	359	360
<b>Number of subsidiaries left</b>	*	11	14	19	49	34	46	38	28	19
<b>Number of subsidiaries newly established</b>	*	3	18	225	40	27	29	35	37	22
<b>Balance (established - left)</b>	*	-8	+4	+206	-9	-7	-17	-3	+9	+3

\* No numbers available because data of 1999 were not present in order to get insight into changes in 2000.

**Information in table 5.1 is derived from facts of Toyo Keizai, 2000-2009.**

Table 5.1 shows that the total number of Japanese subsidiaries in *the Netherlands* increased in the period 2000-2003. A remarkable increase was found in 2003 compared to 2002; 225 Japanese subsidiaries were established. An explanation for this could possibly be a change in the Japanese Tax Authority that stimulated Japanese firms to invest in the Netherlands. Whether this is the right explanation, is not certain (JCC, 2010). Another explanation was not found. Subsequently, the total number slightly decreased, followed by a slight increase again in 2008. The table also shows that in every year subsidiaries have left and are established, but the numbers vary over the years. One would not expect that in 2008, during the financial crisis, relatively many subsidiaries have been established while a relatively low number of subsidiaries left. No particular explanation was found for this remarkable phenomenon. The table also shows the net increase or decrease of the number of subsidiaries for each year. For example, in the year 2001, eleven subsidiaries left, while in the same year three subsidiaries were established. The balance in 2001 is then,  $-11 + 3 = -8$ . This means that the total number of subsidiaries in 2000 counts eight subsidiaries more than in 2001. Overall, the balance illustrates low numbers except for the year 2003, as was explained above.

The database has also provided insight in the number of relocations within the Northwing and entrants into the Northwing of Japanese subsidiaries. Table 5.1 has been developed analysing this information:

**Table 5.2 Analysis of the number of relocations within and to the Northwing in the period 2000-2009.**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Total number of relocations</b>	*	4	5	4	4	3	6	7	9	9
<b>Number of relocations within the Northwing</b>	*	4	5	4	4	2	4	6	4	5
<b>Number of relocations into the Northwing</b>	*	0	0	0	0	1	2	1	5	4

\* No numbers available because data of 1999 were not present in order to get insight into changes in 2000.

**Information in table 5.2 is derived from facts of Toyo Keizai, 2000-2009.**

Table 5.2 shows that the number of relocations, based on the total number of 236 Japanese subsidiaries present in the Northwing in 2009, is quite low in the period 2000-2009. In the period 2000-2009, between 1% (3/236) and 4% (9/236) of the Japanese subsidiaries has been relocated. These low percentages indicate that Japanese subsidiaries located in the Northwing do not relocate much. The table illustrates that in the years 2001 until 2004, all relocations took place within the Northwing. In 2005 and 2007, for each year only one subsidiary relocated from outside the Northwing into the Northwing, respectively from Ridderkerk to Schiphol and from Neede to Nieuwegein. In 2006 and 2008, respectively two and five subsidiaries relocated from Rotterdam to Amsterdam. In 2009, two subsidiaries relocated from Rotterdam to Amsterdam and the other two from Oosterhout to Amsterdam and from Heerlen to Hoofddorp. None of the subsidiaries relocated more than once in the period 2000-2009.

The following table, see next page, shows some statistics about the Japanese subsidiaries in *the Northwing* in terms of industry, main activity, and period of establishment.

**Table 5.3 Analysis of the Japanese subsidiaries in the Northwing in terms of industry, main activity and period of establishment.**

	<i>Subsidiaries present in the Northwing in the year 2009</i>		<i>Subsidiaries present in the Northwing during the entire period 2000-2009</i>	
	<b>236</b>		<b>116</b>	
<b>INDUSTRY</b>				
	Number	%	Number	%
Agriculture	1	0%	0	0%
Automotive	23	10%	15	13%
Business Services	15	6%	4	3%
Chemicals	18	8%	9	8%
Construction	5	2%	4	3%
Consumer goods	13	6%	8	7%
Creative industries	2	1%	2	2%
Electronics	40	17%	21	18%
Energy	23	10%	7	6%
Financial Services	16	7%	6	5%
Food	6	3%	2	2%
Health & Pharmaceuticals	7	3%	3	3%
ICT	8	3%	2	2%
Machines & Appliances	25	11%	16	14%
Process industry	1	0%	1	1%
Paper & Graphical	3	1%	2	2%
Tourism	4	2%	3	3%
Transportation & Logistics	13	6%	7	6%
Wholesale, retail and trading	13	6%	4	3%
<b>MAIN ACTIVITY</b>				
	Number	%	Number	%
Regional HQ	32	14%	25	22%
Holding	37	16%	12	10%
Marketing, Sales and After-sales services	87	37%	42	36%
Logistics, Distribution & Warehousing	9	4%	6	5%
Production	4	2%	3	3%
Research & Development	0	0%	0	0%
Other	67	28%	28	24%
<b>PERIOD OF ESTABLISHMENT</b>				
	Number	%		
1960s	4	2%		
1970s	20	9%		
1980s	50	21%		
1990s	84	36%		
2000s	72	31%		

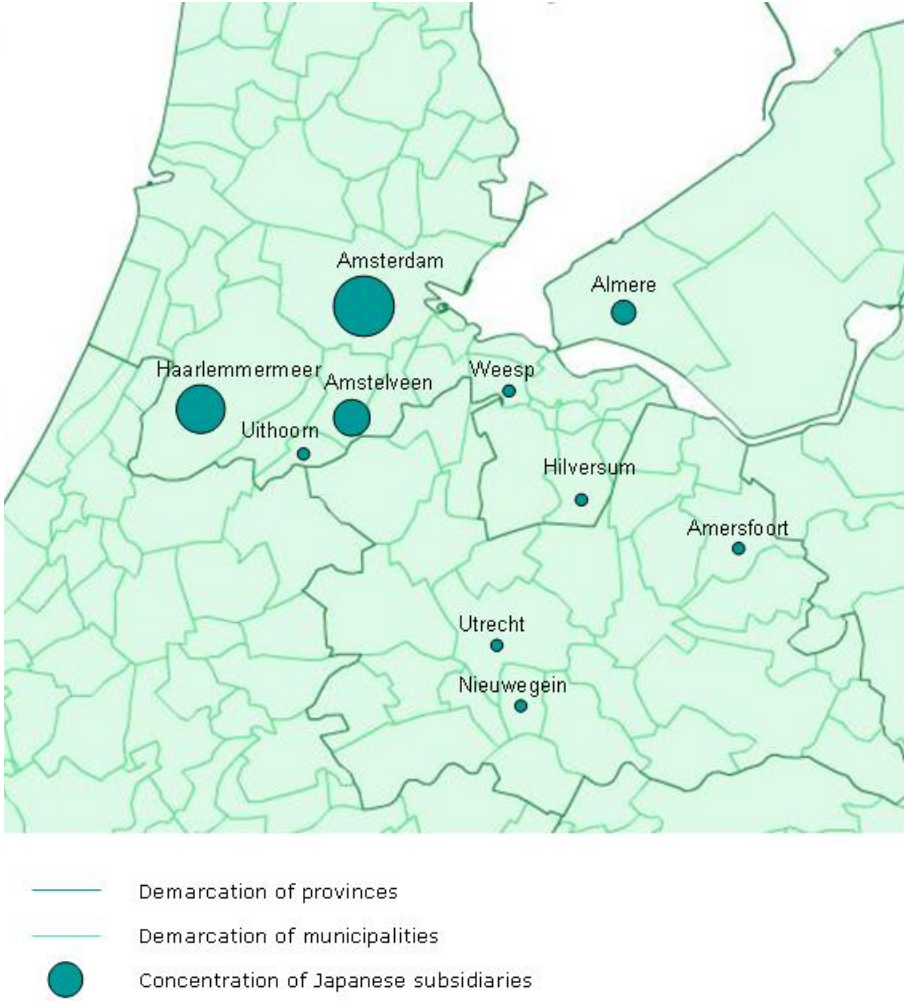
Information in table 5.3 is derived from facts of Toyo Keizai, 2000-2009.

Table 5.3 shows that in 2009 the industries Electronics, Machines & Appliances, Automotive, and Energy take the highest proportions. More specific, for the subsidiaries present for at least ten years, Electronics, Machines & Appliances and Automotive dominate. Taking the main activities of the 236 subsidiaries into account, 'Marketing, Sales and After-sales services' (M&S) account for 37%, 'Other' (often finance related activities) accounts for 29%. The proportions of main activities of the 116 subsidiaries only, show that M&S also has got the highest proportion, followed by other main activities and regional HQ.

Furthermore, the table shows that within the 1990s the number of establishments was the highest for the entire period from the first establishment of a Japanese subsidiary in the Northwing (in the 1960s) until 2009 (the 2000s). An explanation for this has not been found so far but could possibly be explained by one of the interviewees. It is not relevant to analyse the period of establishment for the 116 subsidiaries that have been present for the last ten years.

In chapter 4 it was mentioned that more than 60% of Japanese subsidiaries in the Netherlands is located in the Northwing. Figure 5.1 (see next page) is a map illustrating the concentrations of Japanese subsidiaries in this area. Amsterdam (including the municipalities *Amsterdam* and *Amsterdam Zuidoost*) hosts the largest number of Japanese subsidiaries in 2009: 109 subsidiaries account for 46% of all Japanese subsidiaries in the Northwing in 2009 (236). Haarlemmermeer (including *Hoofddorp*, *Lijnden*, *Nieuw-Vennep*, *Oude Meer*, *Schiphol*, *Schiphol-Rijk*, *Schiphol-Zuidoost*, and *Zwanenburg*) hosts 59 Japanese subsidiaries in 2009: 25% of 236. Amstelveen ranks third, in 2009 sixteen Japanese subsidiaries were located there, accounting for 7%. Almere hosted twelve subsidiaries in 2009, accounting for 5% of the total number. The municipalities *Amersfoort*, *Hilversum*, *Nieuwegein*, *Uithoorn*, *Utrecht* and *Weesp* all hosted four or five Japanese subsidiaries in 2009, accounting for only 2%. There are some other municipalities that only host one to three subsidiaries, this is not demonstrated in figure 5.1 because this is not considered as a concentration of subsidiaries.

**Figure 5.1 Concentration of Japanese subsidiaries in the Northwing in 2009.**



**5.2 Subsidiaries’ analysis on Japanese subsidiary evolution**

**5.2.1 Characteristics of the subsidiaries interviewed**

For every subsidiary interviewed an introduction is given. Attention is paid to general characteristics of the subsidiary, for instance the industry and activities of the subsidiary and their parent. The information is derived from both the in-depth interviews, the website of the subsidiary (and the HQ) and information booklets of the subsidiary.

***Canon Europa N.V. – Amstelveen***

The European HQ of Canon Inc. is split into two subsidiaries: Canon Europa in Amstelveen is one part of the European HQ, whereas Canon Europe Ltd. is another part, located in the United Kingdom (UK). Canon Europa is responsible for the central operational functions, logistics coordination, and ICT support. Operational strategy and ICT strategy are developed here, and Canon Europe is responsible for sales and marketing strategies. The European HQ in Amstelveen has a coordination function to local subsidiaries in the Europe, Middle-East and Africa (EMEA) region, such as Canon Nederland N.V.. The number of employees at the subsidiary in Amstelveen is about 300, including approximately 30 Japanese expatriates. Canon Europa was established in 1968 near Schiphol and from 1988 it has been located in Amstelveen.

The global HQ, Canon Inc., is located in Tokyo. From a camera manufacturer it has developed into a world-class digital imaging company. The main activities of Canon Inc. are R&D, corporate administration and operations. In 2007, 33% of all sales has been generated in Europe. In comparison, the Americas accounted for 30% of sales and Japan for 21%, in 2007 (most recent year of data available) (Canon Europa, 2010). The sales contribution from different business fields is as follows: computer peripherals account for 34% of all sales, followed by office imaging products (29%) and cameras (26%), while in the period 1998-2007 the sales of cameras showed the highest increase. The European HQ's sales (Canon Europa and Canon Europe) is not restricted to specific Canon products. R&D subsidiaries in Europe are located in the UK and France.

### ***Hoshizaki Europe B.V. – Amstelveen***

In 1992 Hoshizaki Europe was established in Amsterdam as the European HQ of Hoshizaki Electric Company. This subsidiary supplies the foodservice and retail industries with ice machines, refrigeration equipment, and dispensers for instance. The market scope of Hoshizaki Europe is the EMEA region. The products sold at Hoshizaki Europe are mainly manufactured by Hoshizaki's European factory in the UK. Hoshizaki Europe has six affiliates in Europe; one of these is located in the Netherlands at the same location of the European HQ. The other five sales affiliates are located in France, Germany, the UK and Spain. In Africa and the Middle-East, there is an extensive network of dealers. The European HQ employs 17 employees, including four Japanese expatriates. Within Europe, a total number of 60 people are employed.

The parent of Hoshizaki Europe, Hoshizaki Electric Company, is an all-round manufacturer of kitchen equipment based in Nagoya. Examples of kitchen equipment manufactured are cookers, fridges, water purifiers and dispensing equipment. Over the years, the product range increased. The first production of ice machines was in 1965, introducing a substantial growth of the MNE.

Hoshizaki Electric Company has ten factories in total and 46 affiliated companies around the world with more than 10,000 employees. In terms of turnover, the position of Hoshizaki in the Americas is considered to be more important than Hoshizaki in Europe (Hoshizaki Europe, 2010).

### ***Kintetsu World Express (EA) B.V. – Hoofddorp***

Kintetsu World Express (KWE) (EA) in Hoofddorp is one of the five regional HQs of KWE Inc. and is responsible for the EMEA region since July 2010. Before that, the market scope of KWE (EA) was Europe and Africa (EA). KWE (EA) is responsible for the business development around forwarding, logistics and warehousing. During the last few years a shift in logistics has resulted in more focus on warehousing. For KWE (EA), the port of Rotterdam serves ocean freight forwarding and Schiphol airport serves airfreight forwarding. Within the business development activity of KWE (EA), account management is very important but sales activities take place too. KWE (EA) in Hoofddorp employs ten employees whereof three are a Japanese expatriate. KWE Benelux is located near Schiphol, and a sales subsidiary in Ridderkerk. KWE (EA) was established in 2001 at the location of KWE Benelux. In 2006 KWE (EA) moved to Hoofddorp.

The Japanese HQ, Kintetsu World Express, Inc., is located in Tokyo and has its core business in international airfreight forwarding. In 2009, 62% of net sales belongs to this division. Other main activities are ocean freight forwarding and logistics. Over 1,000 employees work for KWE Inc in Japan. In 2009, the parent accounted for the highest share of total sales, 43%, while KWE (EA) accounted for 9%, ranking third. Ranked

second is the region East Asia & Oceania. The proportion of sales by KWE (EA) has risen recently, because of the increased market scope to EMEA (KWE, 2010).

#### ***Koike Europe B.V. – Zaandam***

The European HQ Koike Europe was established in 1982. The main activity of Koike Europe is the sale of mainly cutting machines to dealers. Other activities of Koike Europe are the (end)assembly of their products, distribution and service. In contrast to many other MNEs, Koike does not have local subsidiaries in every target country, so the European HQ does not have a coordination function. There are two more subsidiaries in Germany (mainly R&D and production) and France (mainly sales and some warehousing). Koike Europe's market scope is EMEA, with a focus on Eastern-Europe in the last years. The number of employees is 27, including two Japanese expatriates; one of them is the (part-time) CEO.

The global HQ, Koike Sanso Kogyo Co., Ltd., is located in Chiba and is a total system supplier of gas, welding, and cutting solutions. Koike develops, manufactures, and sells various types of gases, cutting machines and systems to a wide range of industries like steel construction, vehicle manufacturing, and other heavy metal industries. Koike's products are used in more than 80 countries. The parent has 374 employees and about 75% percent of total turnover is generated in Japan, while the European HQ generates only about 5% of total turnover (Koike Europe, 2010).

#### ***Ricoh Europe (Netherlands) B.V. - Amstelveen***

Ricoh Europe (Netherlands) in Amstelveen is part of the European HQ of Ricoh Co., Ltd.. The other part is located in the UK, where the board is settled as well. The office in Amstelveen is responsible for product marketing and services. The European HQ is specialised in printing products such as printers and copiers and IT and document solutions for a business-to-business market. At the same location in Amstelveen, Ricoh International is established. This is called an 'operating company' that is responsible for the countries which do not have local Ricoh 'operating companies'. Ricoh Europe (Netherlands) (and Ricoh Europe in the UK) have a coordination function for the countries that do have local 'operating companies'. In total, the subsidiary employs about 300 employees, including around 30 Japanese expatriates and serving more than 70 countries.

Ricoh Co., Ltd. is the global HQ of the MNE and is located in Tokyo. The core business is providing digital office solutions through the production of office products (e.g. printers, copiers), industrial products (e.g. electronic devices), personal products (e.g. digital cameras) and software related products (e.g. software). Besides the European HQ, Ricoh has regional HQs for the Americas, China and Asia/Pacific. While in the fiscal year 2010 the Japanese HQ accounts for 43% of total net sales, so does the European HQ for 23%, but mainly from the part in the UK. The net sales in the Americas is slightly higher, accounting for 27% of total sales (Ricoh Europe (Netherlands), 2010).

#### ***Sharp Electronics Benelux B.V. – Houten***

In 1991 Sharp Corporation initiated the acquisition of two importers and as a result, Sharp Electronics Benelux was established in Houten. The Benelux HQ's main activities are sales and services of consumer and business electronics. Consumer products sold are mainly LCD flat screen televisions (accounting for 67% of the subsidiary's sales) and business products sold are mainly document systems such as copiers (accounting for the remainder 33% of subsidiary's sales). The market scope is Belgium, the Netherlands and Luxemburg. As one of the few local Sharp subsidiaries in Europe, Sharp Electronics



Benelux is active in both direct sales and services, and in sales to dealers; the relationships with trade partners is very important. The number of employees at Sharp Electronics Benelux is 120, including one Japanese expatriate. The president is Dutch. Sharp Electronics Benelux is in part subjected to the European HQ Sharp Electronics Europe, located in Germany.

The Japanese HQ Sharp Corporation is located in Osaka and is a manufacturer of consumer/information products (such as DVD-recorders and microwave ovens) and business components (such as LCDs and solar cells). In the whole multinational, production and sales is always separated. While Japan is responsible for 52% of total sales, so is Europe for over 14% in 2010. Within Europe, Germany, Italy, the UK, France, and Sweden are the major countries responsible for the sales (Sharp Electronics Benelux, 2010). The size of Sharp Electronics Benelux is quite small then.

### ***Sigma Benelux B.V. – Nieuwegein***

The subsidiary Sigma Benelux distributes Sigma products within Belgium, the Netherlands and Luxemburg. The Sigma products sold to individuals and their dealers, specialist photography shops, are lenses in the first place, but also cameras, flashguns and accessories. Sigma products are entirely produced at the parent in Japan. Sigma Benelux was established in 1991 and moved to Nieuwegein ten years ago. A new move of the subsidiary to Houten has been planned. Sigma Benelux employs eight employees; no Japanese expatriates. Since the establishment no Japanese have been working in the subsidiary, but other Sigma subsidiaries do have Japanese expatriates.

The global HQ Sigma Corporation is located in Kanagawa, its core businesses being production and sales of optical equipments (lenses, cameras, flashguns and accessories). Sigma Corporation does not have regional HQs, the other overseas subsidiaries are located in the USA, Germany, France, the UK, Hong Kong and Singapore. The market scope of Sigma Benelux is smaller than the other subsidiaries' scope (Sigma Benelux, 2010).

### ***Yakult Nederland B.V. – Amstelveen***

In 1994, Yakult Nederland was established in Almere as a local subsidiary for the sale of the fermented milk drink "Yakult" in the Dutch market. The Netherlands was the first country in Europe that introduced this drink. At that time, there were some regional offices in the Netherlands. In 1996, Yakult Nederland moved to Amstelveen, while the European HQ Yakult Europe B.V. was established at the location in Almere. The factory for European production is also located in Almere. Nowadays, the "Yakult" drink is sold in 32 countries, whereof eight European countries. In 2010, Yakult Nederland ranked second in terms of net sales (Yakult Nederland, 2010). Besides sales, Yakult Nederland is also active in marketing, public relations and scientific research. The subsidiary employs seventeen employees, including one Japanese expatriate. In contrast to many other Japanese subsidiaries, the managing director is not Japanese.

The global HQ is Yakult Honsha Co., Ltd. in Tokyo. While Yakult Nederland is very specialised, its science-based Japanese HQ has core businesses in the manufacturing and marketing of food and beverage products, cosmetics, pharmaceuticals and others. In 2005 the research institute for R&D was established in Ghent, Belgium.

### ***Yamaha Motor Europe N.V. – Schiphol-Rijk***

The subsidiary Yamaha Motor Europe (YME) is the European HQ of Yamaha Motor Co., Ltd.. In 1968 this subsidiary was established. At that time, products of Yamaha Motor were produced in Japan only. When the business started to grow, it was decided YME to

function as an intermediary between the two production factories (located in France and Spain) and distributors; YME is responsible for coordinating the marketing and sales activities of Yamaha Motor products distributed across the European market. At its location in Schiphol-Rijk also the logistics centre for spare parts and accessories, Yamaha Motor Nederland (distributor for the Dutch market) and Yamaha Motor Middle-Europe (overseeing sales and marketing activities in the UK, Germany, Austria, Hungary, the Czech Republic, Slovakia and Poland) are located there. A range of products is sold in the European market, such as motorcycles, scooters, water vehicles, and snowmobiles. During the last ten to fifteen years, the market scope increased through the incorporation of Eastern-Europe. Nowadays, YME employs about 225 employees, including about 30 Japanese expatriates. At the moment, the upper management consists of Japanese expatriates only but this has not always been the case.

Yamaha Motor Co., Ltd. is the Japanese HQ's name and is located in Iwata. Its core businesses are manufacturing and sales of a wide range of (motor) products, such as motorcycles, boats and engines. In 2010, Japan is responsible for over 11% of all sales, Europe for over 17%. The sales of motorcycles accounts for over 70% of all sales, followed by marine (13%) and power products (almost 9%) (YME, 2010).

#### ***Yanmar Europe B.V. – Almere***

Yanmar Europe is the European HQ of Yanmar Co., Ltd.. The main activities of this subsidiary are production and sales of industrial engines, large engines and spare parts for a wide range of applications, including seagoing vessels, construction equipment, and generator sets. The market scope of this subsidiary is EMEA. Over the years, the product range of Yanmar Europe has been widely increased. Yanmar Europe was established in Almere in 1988, and currently employs about 150 employees. The managing director's nationality is Dutch. At the moment the upper management's nationality is a mix of European and Japanese, about 30% is Japanese. Within the Netherlands, Yanmar Benelux is another subsidiary, located in Uithoorn. This subsidiary is responsible for the distribution of Yanmar products within the Benelux.

The global HQ Yanmar Co., Ltd. is located in Osaka and is a comprehensive diesel manufacturer. The MNE produces everything from fuel injection equipment to marine gear; mainly for diesel-driven machinery on land and sea. The multinational serves many industries, such as Energy, Industrial, Construction, and Agriculture (Yanmar Europe, 2010).

#### ***Yokogawa Europe B.V. - Amersfoort***

Since 2008 three subsidiaries of Yokogawa in the Netherlands (in Houten, Apeldoorn and Amersfoort) merged into one subsidiary located in Amersfoort: Yokogawa Europe. This subsidiary has three main segments: the European HQ of Yokogawa Electric Automation, the factory and industry support on project basis. Yokogawa Europe produces test & measurement equipment and coordinates the technical process of this. Within the large-scale process industry Yokogawa Europe especially focuses on oil, gas and electricity. Within the last ten to fifteen years, Yokogawa Europe has extended its network to Southern Africa and Central and Eastern Europe. About 580 people are employed at Yokogawa Europe, including ten Japanese expatriates. It is an exception, compared to many Japanese subsidiaries that the upper management does not consist of Japanese expatriates.

The Japanese HQ is Yokogawa Electric Corporation in Tokyo, with its core businesses in measurement, control, and information serving a range of industries including the oil and gas, (petro)chemical, pharmaceutical and energy industry. The highest clients' share

belongs to the oil and gas industry. In the first two quarters of 2010, Japan accounted for about 40% of net sales, while Europe did for almost 9%. Asia (without Japan) accounted for 25% in the same period (Yokogawa Europe, 2010).

### 5.2.2 Actual evolution of Japanese subsidiaries in the Northwing

In this subsection light will be shed on the actual development of subsidiaries, i.e. a subsidiary's evolution. The broad definition used is quoted once more: "*a dynamic process that responds to a variety of external and internal factors*" (Chang & Rosenzweig 1998, p. 327). Subsequently, subsections 5.2.3 and 5.2.4 pay attention to the determinants found for Japanese subsidiary evolution. It is important to note that evolution characteristics and determinants cannot be analysed fully separately. This is logical because it is interesting to discover causal relationships between several factors; finding the determinants for a specific evolutionary path.

#### *Development of activities and mandates*

An important aspect of subsidiary evolution is the development of activities and mandates. Most subsidiaries interviewed found it difficult to clearly distinguish between their main and secondary activities. Therefore, the focus will be on the subsidiary's main activities only. M&S are the most common main activities. Eight of the eleven subsidiaries mentioned these as one of their main activities. In all cases, more than one main activity was mentioned. M&S is often combined with after sales services, repair and distribution. Of all subsidiaries interviewed, also eight have a European HQ function as a main activity. Table 5.3 has illustrated this.

Japanese subsidiaries do not change much their activities. Although not representative, most interviewees (eight) did not experience a change in activities in terms of the adding or removing of activities. Some of the interviewees also acknowledged that this is quite typical for Japanese subsidiaries in general. Nevertheless, most indicated a change in the way activities are carried out, caused by technical developments or changes in market circumstances or demands, for example. Yakult Nederland (2010) clearly indicated a change in the way their main activity, the M&S of the drink "Yakult" is carried out:

"In 1994, there were four regional affiliates in the Netherlands. From these the distribution of the Yakult drink was monitored and serviced [...]. At that time 50/60 employees worked for Yakult Nederland, mainly for the distribution of our product; nobody knew the drink yet. To increase the publicity and promote our product, monitoring and demonstrations in supermarkets happened frequently. Nowadays, our people don't have to visit supermarkets on a daily basis anymore, something that did happen the first six years since the start-up of this subsidiary. It's not necessary anymore".

This quote illustrates that a change in the way an activity is carried out, could change the subsidiary's role. From starting a business and promoting its product, Yakult Nederland has become a specialised 'marketing satellite'; a subsidiary that markets single products or a range of products in their host environment (Dörrenbächer & Gammelgaard, 2006). However, while Benito et al. (2003) and Birkinshaw (1996) argued that the scope and responsibilities are generally broadened when the number of subsidiaries is rationalised, Yakult Nederland indicated that their *role* has changed, but their actual responsibility or *mandate*, namely the sales of their product in the Dutch market, remained the same.

Canon Europa and Koike Europe are the only subsidiaries that indicated that one of their activities had been removed; respectively M&S (removed to the other part of the HQ: in the UK) and production. The reason mentioned for this change at Canon Europa was that operating M&S was considered to be more strategic in the UK. Koike Europe

mentioned a shift to Eastern-Europe; production has become cheaper there and adaptation to the market is considered to be necessary.

The interviewees that did not experience changes in main activities were asked for the main reason why new activities had not been initiated. Most subsidiaries answered that this did not fit the Japanese HQ's strategy. Subsection 5.2.3 will elaborate on the role of the HQ's strategy.

Little change in main activities does not mean no change in mandates. In some interviews it was illustrated that Japanese subsidiaries do not increase their mandates per definition during their development, but some clearly suggested an increase in mandates. At this point, it is important to note that mandates can be interpreted differently; subsidiary's responsibilities can be related to the activities carried out or the subsidiary's market scope for instance, as Birkinshaw & Hood (1998) explained. Depending on how the mandates are interpreted, the responsibilities can differ. Although mandates with respect to activities do not necessarily increase over time, mandates with respect to market scope and scaling up often do increase. European HQs indicated that when the number of local subsidiaries increases, for which they fulfil a coordination function, then their overall responsibility increases. The development of mandates is connected to the position of the subsidiary. Canon Europa is one of the subsidiaries that acknowledged this phenomenon, subsection 5.2.3 will explain this.

If the mandates of a subsidiary do not increase, one could expect that this is not specifically one of the subsidiary's goals. Well executing the current mandates can be a goal in itself. Sharp Electronics Benelux (2010) said the following:

"Our responsibility is sales and services, nothing more, nothing less for the Benelux market. [...] Our role is clear, we are a distributor of Sharp products within the Benelux. We are nothing more and nothing less than a 'trading house'. I am responsible for the well functioning of this company".

Overall, it cannot be clearly stated whether Japanese subsidiaries gain mandates over time. At least Delany's model (see figure 2.3 on page 18) does not hold in all cases. Rather, many subsidiaries interviewed seem to be multi-activity units according to Benito et al.'s model on subsidiary roles (see figure 2.2 on page 16), although the path to achieve this role as described by Benito et al. (2003) was not specifically observed (namely, no addition of activities). When subsidiary evolution in terms of mandates is analysed (see Birkinshaw & Hood's figure 2.1 on page 14), Canon Europa, Koike Europe, and Hoshizaki Europe for example followed somehow the PDD evolution; these subsidiaries lost a mandate for a certain product (M&S for Canon Europa and production for Koike Europe), market (Asia for Hoshizaki Europe) or technology, which was initiated by the HQ. This does not mean, however, as figure 2.1 indicates, that this is the 'only' evolutionary path of these subsidiaries. Canon Europa and Koike Europe also have gained mandates in another way; respectively by increasing the market scope and taking an important initiative (see quote at the end of this subsection).

#### *Product and market scope*

Although many subsidiaries have not changed their main activities, many have experienced changes in the product scope. Canon Europa, Hoshizaki Europe, Ricoh Europe (Netherlands), YME and Yanmar Europe indicated that the product scope increased during their development. Sigma Benelux and Sharp Electronics Benelux indicated that their product scope had been decreased, the former quit the production and sale of e.g. binoculars and now specifically focuses on lenses in the first place, and the latter relocated the sales of solar panels to the European HQ in Germany. It was previously mentioned that the way activities are carried out possibly changes over time;

changing product scopes might contribute to this development, caused by market demands.

In the interviews with the subsidiaries the change in market scope was differently indicated. In most cases, the 'actual' market scope increases over time; for instance, at the start the market scope was Europe or EMEA but during the years of development the market scope actually increased through the establishment or acquisition of local subsidiaries or affiliates. This has been observed at Ricoh Europe (Netherlands) (2010):

"Over the years, Ricoh has grown through a number of acquisitions. Independent distributors have been incorporated, which has resulted in a major increase in market scope".

Hoshizaki Europe is an exception, at the start they were responsible for the EMEA and the Asia market but then their market scope decreased because Asia became an 'independent' area. After this, the actual market scope of Hoshizaki Europe within Europe increased. Sigma Benelux and Yakult Nederland logically have not increased their market scope. Sharp Electronics Benelux actually started with a national scope and increased this to a Benelux scope.

The evolution of the market scope is caused by different factors. Scaling up and increasing the actual market scope can play an important role. The role of the latter is characteristic for Japanese subsidiaries; Japanese HQs find actual market scope an important gauge of success. This will be elaborated in subsection 5.2.3. Also, changes in market demands result in adapting to the 'local' market which consequently causes shifts in the overall market scope. This was illustrated in the interviews with Koike Europe and YME for instance; they mentioned a shift in focus on Eastern-Europe.

"The reason why we removed our production function and moved it to Eastern-Europe is because production is cheaper there, and because of the fact that the type of machines that was built here had become an outdated technology. Moreover, the demand for that type of machines decreased. So we had to adapt to the market demands and therefore increased our scope by targeting Eastern-Europe" (Koike Europe, 2010).

This quote illustrates that both a mandate gain, in terms of markets served, and a mandate loss, in terms of activities removed, occurred at the same time. This was acknowledged by Birkinshaw & Hood (1998), as described in subsection 2.1.2.

### **5.2.3 Determinants of Japanese subsidiary evolution in the Northwing**

Subsection 5.2.2 has described the main characteristics of Japanese subsidiary evolution. These characteristics are caused by several determinants. Some were already mentioned shortly, because characteristics of evolution cannot be described fully separately from the corresponding determinants. The HQ and subsidiary related determinants and the causal relations with subsidiary development that have been found will be described in this subsection, specific attention will be paid to host environment determinants in subsection 5.2.4.

#### *Global developments*

The literature review and conceptual framework indicated that Japanese MNEs are influenced by global developments. The indirect influence of global developments on subsidiary evolution was not specifically researched in the interviews. However, many directors mentioned influences of economic events by themselves. Global developments impact the HQ and consequently, the subsidiary. Several directors mentioned a stronger control by the HQ on their subsidiary during today's economic situation, including more

risk-averse behaviour. Also, a decreasing number of expatriates is observed when the economy declines. This has been observed by Yokogawa Europe (2010):

“When there is talk of an economic downturn, like nowadays’ crisis, a decrease in expatriates is observed”.

### **HQ determinants**

#### *Decision-making authority*

Chapter 2 has described the characteristics of the decision-making system in Japanese MNEs: consensus and long procedures of decision-making. The directors interviewed confirmed these characteristics within Japanese subsidiaries. The decision-making authority constitutes certain routines within the subsidiary which are derived from the HQ. Canon Europa, Yokogawa Europe, Hoshizaki Europe, Ricoh Europe (Netherlands) and YME clearly stated the aspect of consensus to be present within their decision-making procedures, often in combination with long-term planning.

The following quote of Yokogawa Europe (2010) illustrates the aspect of consensus within the subsidiary’s decision-making process:

“It is typically Japanese to make decisions by consensus and a bottom-up approach. An employee has an idea, tells his boss about it, subsequently he tells the director and the director will ponder the idea (by consulting with the HQ). This has far-reaching consequences for the provision of information: the perception of the firm’s status is formed through details developed bottom-up. Information is intensively exchanged”.

One of the questions asked is whether the current decision-making process regarding important decisions about the operations of the subsidiary predominantly takes place within the subsidiary or the (regional) HQ. All subsidiaries interviewed indicated that to some extent, the subsidiary itself is in the position to take decisions. However, it was generally acknowledged that the HQ always has some influence on the operations of their subsidiaries, especially on key issues. From a longitudinal point of view, it was researched whether there had been changes in the decision-making authority during the development of the subsidiary. This could provide insight into the development of the position of the subsidiary as well. This will be further exemplified under *Reputation and position within the MNE and their environment*.

#### *Parent management ethnocentrism*

Parent management ethnocentrism was not specifically mentioned in the interviews. An illustration of parent management ethnocentrism could be the sending of one of the most skilled Japanese employees to Europe to set up an investment (Kopp, 1994). Hoshizaki Europe and Koike Europe indeed told that an experienced Japanese employee was sent to Europe or the Netherlands to start up a new subsidiary. Parent management ethnocentrism could also be present when a preference for certain aspects of the Japanese way of working is observed in the subsidiary. Then, the Japanese way of working is a routine and could consequently influence subsidiary’s choices. Hoshizaki Europe (2010) stated:

“For every entity of Hoshizaki, a Japanese person at the HQ in Japan holds final responsibility. All companies report to that Japanese director, not only to the ‘local’ director present in the subsidiary”.

#### *Strategy*

Entering the European or local market, thus increasing market scope and scaling up, are the most common strategies of Japanese HQs to establish a new subsidiary. Realising

profit often is a second goal, becoming more important in a later stage of a subsidiary's evolution. An explanation for this could be the long-term perspective of Japanese MNEs. Hoshizaki Europe and Yokogawa Europe indicated a change in HQ's strategy. Yokogawa Europe (2010):

"At the start, the HQ's goal for us was: growth. Especially growth without loosing too much money, at least achieve break even results. At some point, we made a lot money. This resulted in a new HQ's goal: growth and making profit".

In chapter 2 it was argued that a HQ's strategy can be characterised as a multi-domestic or global strategy. The former assumes different national markets to which adjusting your business is important and therefore, subsidiaries are rather characterised as miniature replicas of the HQ. The latter is characterised by targeting many different markets from one location. The interviews have shown that Japanese MNEs are increasingly re-characterised towards a multi-domestic HQ strategy. Although the fact European HQs would indicate a global strategy to be a HQ's characteristic because these often fulfil a coordination function to local subsidiaries, YME showed that this is not completely true. YME (2010) illustrates the importance of their coordination function within Europe combined with a multi-domestic strategy:

"The local markets within Europe are very different. The market for motorcycles for example, is small in the Netherlands, but in Italy and Spain for instance, these markets are much bigger. The information must come from the single countries, what kind of products they need et cetera. Most of this information is gathered internally, bundled at YME and subsequently reported to the parent in Japan".

Overall, it was observed that during a subsidiary's evolution, many MNEs increasingly choose for a strategy based on *local orientation*. Many of the directors interviewed indicated this. Canon Europa, Hoshizaki Europe, KWE (EA), Sharp Electronics Benelux, Sigma Benelux, Yakult Nederland and YME recognised this upcoming transition in focus. The change in nationalities within the upper management is mentioned as an indication for an increasing local orientation. Canon Europa (2010) stated:

"Twenty years ago the whole upper management was Japanese. The current ratio is 80% European, 20% Japanese. This resulted in a better 'view' on Europe. In the past, Canon rather focused on Japan, but currently rather on Europe. The Japanese staff members with upper management positions, mainly had a background in production. The current Europeans rather have a background in sales. We made a transition from a production-MNE, which we still are to some extent. to a sales-MNE. Now we focus much more on the market demands".

This quote also illustrates that Canon Europa adapted its resources (people with a background in production to a background in sales) in order to improve its competencies. Consequently, the subsidiary's 'performance' has improved; because Canon Europa could successfully implement its HQ strategy. Later in this thesis, when analysing the subsidiary's determinants found, more attention will be paid to resources and competencies.

Hoshizaki Europe (2010) explains the transition to a more local orientation within their subsidiary as follows:

"We are actively aiming at managing the local markets with increasing local control structures. We produce, actually assemble, locally. The key components of the machines producing ice are manufactured in Japan. The remainder of the machines is assembled in our 'local' factory in the UK. Demanding Japan for key components leads to long procedures to get what we asked for. Nowadays, there is an increasing consciousness to manage local markets locally".

The quote shows that Hoshizaki Europe aims for less dependency from the parent by increasing the local control structures.

In chapter 2 Westney (2008) and Kopp (1994) stated that Japanese MNEs generally want to implement home country patterns (e.g. the decision-making system and the use of Japanese expatriates) into their overseas subsidiaries, but this had led to problems because of the discrepancy between Japanese systems and European ones. Indeed, Japanese MNEs are increasingly aware of the advantages of a local orientation, including an increase in numbers of European directors. This is especially noticeable in the more 'local' subsidiaries; Sharp Electronics Benelux, Sigma Benelux and Yakult Nederland have Dutch managing directors. Sharp Electronics Benelux clearly demonstrates this with the following quote:

"Our transition should be, I think, and that's true for many Japanese companies except for the really big ones, that we and many others really want to become a big multinational, a global player, but hitherto, many are Japanese companies selling their products worldwide. If you really want to become a multinational, then a different behaviour is required; you should accept the presence of local markets which need to be managed locally, accept that there is control, that you could expand a global strategy and not a Japanese one for Europe and the USA, that's not working. [...] This is what we increasingly become convinced of within Sharp".

Koike Europe distinguishes between its own MNE and the industry it is active in, and the widespread Consumer Electronics firms:

"I think that Consumer Electronics companies already have such size and professionalism that these acknowledge and recognise the major significance of local values and cultures and that it's important that the region has input in the company's strategies. Smaller companies that mainly focus on Japan possibly have not adopted yet the global culture. Then, the risk arises that subsidiaries outside Japan will navigate their own path".

### ***Subsidiary determinants***

#### ***Resources and competencies***

The quote of Canon Europa on page 62 illustrated that HQ strategies have influence on the own strategy of a subsidiary and consequently, its performance. Resources and competencies also underlie a subsidiary's strategy. Therefore, attention will be paid to the development of resources and competencies first, followed by subsidiary's strategies that in part reflect a subsidiary's reputation and position.

In order to detect the initial resources and competencies, the interviewees were asked for their subsidiary's qualities or key competencies, and what factors are essential to obtain and retain these competencies. This has been a difficult part of the interview; questions about the subsidiary's (changes in) competencies were interpreted very generally. Different competencies have been mentioned and changes in competencies varied. Competencies mentioned by the interviewees relate to the main activities of the subsidiary. A high level of internal knowledge (creation) is generally aimed at. Quality of the products, sales or services was specifically mentioned by several subsidiaries and these acknowledged that this is typical for Japanese firms. The right person in the right place is called essential to guarantee the subsidiary's qualities. This would suggest that human capital is a resource for the competencies to be well executed. These people must have sufficient and specific knowledge. The following example illustrates this:



"Sales is one of our qualities. We have good knowledge of the market. To achieve a high quality of sales, we select people with a technical background. Over the years, our sales quality has grown through the employment of higher qualified people. This has contributed to higher profits" (Yanmar Europe, 2010).

Especially within the Electronics industry the market changes fast, so does the demand for specific knowledge. These subsidiaries sometimes hire people on a temporary basis. This was mentioned by Sharp Electronics Benelux, Sigma Benelux, and Ricoh Europe (Netherlands). The aim is however, to create knowledge internally as much as possible, so there is a continuous process of knowledge development. Subsection 5.2.4 will elaborate on the role of the local environment in the development of competencies through knowledge insourcing, in particular.

In order to detect resources and competencies that are newly developed over time, the interviewees were asked whether their competencies had changed over the years. Some argued that their subsidiary's performance changes over time, for example through gaining experience in the business; this could increase a specific competency. The above presented quote of Yanmar Europe has illustrated this. Another possibility is that competencies already existed since the establishment of the subsidiary and continue to exist. Japanese subsidiaries do not often really develop new competencies over time. This can be explained by the fact that their activities do not change much; during the evolution they rather become more experienced in their current competencies or qualities. This corresponds with Benito et al.'s model (see figure 2.2).

Subsidiaries evaluate their competencies by means of tests, reviews, surveys et cetera. Together with the profit, turnover, market scope, and sales they can value their competencies and their performances. From this perspective, these 'gauges of success' can be considered as resources as well. This will be explained under *Routines*. For the tests or reviews external factors (people, knowledge, networks for example) are needed; subsection 5.2.4 will explain this relationship between relational assets and the development of 'new' resources in order to increase the key competencies.

#### *Reputation and position within the MNE and their environment*

Subsidiary strategy was defined by Birkinshaw & Pedersen (2008, p. 376) as "*the positioning of the subsidiary vis-à-vis its competitors and its customers, and with regard to its underlying resources and capabilities*". The latter part of the definition was explained above. The former part of the definition relates to the subsidiary's reputation and position within the MNE and their local host environment. In terms of the position within the environment, the question was posed how the subsidiary distinguishes itself compared to its competitors. Some interviewees indicated that other competitors are similar. Some others mentioned specific competencies that distinguish them from competitors. Yakult Nederland (2010) for example, explained their uniqueness compared to competitors in the Dutch market as follows:

"We focus on a single product, we're very specialised. [...] We really focus on the important aspects around this product, such as health. This drink is really our core business. With respect to our competitors, the similar product they produce is one out of many products. Their focus is different".

The reputation and position of a subsidiary within the MNE can also be interpreted differently. The interviews also contained questions regarding the (development of the) subsidiary's position within the MNE and with respect to other subsidiaries. In many interviews it has been demonstrated that Japanese HQs generally find the subsidiary's share in the market (in terms of percentages) important. Yanmar Europe stated that this

is typically Japanese. This determines the subsidiary's reputation as viewed by the HQ. A subsidiary tightly controlled by the HQ, also indicates the subsidiary to be important to the HQ.

The position was found to be determined by the decision-making authority, the degree of autonomy, initiative-taking and (initial) competencies. The subsidiary's position then, is reflected in the subsidiary's mandates. When one or more of the determinants changes, the position could change too. In the literature review it was stated that the more decentralised the decision-making authority (i.e. the more important decisions are taken within the subsidiary), the higher is the autonomy granted to the subsidiary. Canon Europa (2010) illustrated the relationship between a change in the decision-making authority and increasing responsibilities:

"The decision-making authority has become "broader". In the beginning, responsibilities were mainly directed to the Netherlands. Subsequently, other countries were incorporated. At first, some countries were directly subjected to the parent but the decision-making has currently become more clear. We've become more important and can decide more than in the past".

From a longitudinal point of view, just a few interviewees indicated a change in the decision-making authority during the subsidiary's evolution. When the HQ made decisions at the start of the subsidiary and during the development the authority switched to the subsidiary, then the position of the subsidiary within the MNE increased. This was observed at Canon Europa and Yanmar Europe. Most subsidiaries, however, did not indicate a change in the decision-making authority. Nevertheless, some subsidiaries experienced this together with an increase in their position. This suggests that a change in position is not influenced only by the decision-making authority. At this point, initiative-taking has influence too both within the MNE and the local host environment. All subsidiaries interviewed told that taking initiatives within the subsidiary is definitely possible. The following examples illustrate that the reasons the interviewees have given for the increase in their position within the MNE vary: Koike Europe recently increased its position within the MNE by means of the initiative to develop a global standard line within the whole MNE. Canon Europa, Yakult Nederland and Yanmar Europe mentioned that the European nationality of the upper management or the managing director, or the *development* to a more European upper management could be underlying an increase in position. KWE (EA) initiated the establishment of a new local affiliate in Saudi-Arabia which resulted in an increase in market scope, namely the inclusion of the Middle East; their market scope changed from EA to EMEA. Yokogawa Europe mentioned that the merging of three separate subsidiaries has increased the overall responsibilities of Yokogawa Europe. The latter two examples illustrate that mandates could increase (i.e. be extended) through taking initiatives.

### **HQ and Subsidiary – Routines**

In chapter 2 a definition of routines was given; routines can be understood as organisational skills and are formed by the specific or unique capabilities or competencies a HQ or subsidiary has. These competencies can be influenced by historical experiences (path dependency) and a specific geographic setting of the HQ or subsidiary. Firms' routines influence decisions made. An attempt has been made to identify specific subsidiary routines and their origin through asking for subsidiary's resources, competencies and gauges of success. Routine behaviour was also detected by the interviewees' explanations of repeated procedures and actions.

The different interviews illustrate that some variety in routines is visible. In general, Japanese MNEs have the image to deliver high quality products. This competency is

generally transferred from the HQ to Japanese subsidiaries. As a result, delivering good quality of products, services or sales, is considered to be a routine of many subsidiaries.

The decision-making system of *nemawashi* and the room to take initiatives are routines that are found in almost all Japanese subsidiaries, at least to some extent. Canon Europa, YME and Yanmar Europe stated that Japanese employees generally fulfil long-term employments within the same firm, which is one of the subsidiary's resources. The Japanese employees characterised by long-term employment are a resource, resulting in highly qualified employees, which can be regarded as a competency.

"Japanese work for the same company during their 'entire' life. They know the company's ins and outs and know everyone. When I need to consult with someone of the HQ, I can ask them who I need to contact. The Japanese highly value (trust) relationships and these increase as the number of years that the expatriate works for the company increases" (Yanmar Europe, 2010).

Yakult Nederland, Yanmar Europe and Sigma Benelux stressed the need for local managers, in order to pursue the HQ's (and subsidiary's) strategy of local orientation; this must be carried out by people with knowledge of the local market. The position and number of Japanese expatriates within subsidiaries relates to this. When the expatriates have a knowledge exploitation function, they transfer competencies, e.g. the delivering of high quality business, from the HQ into the subsidiary. This can influence the subsidiary's routines. The interviewees of the subsidiaries that include a relatively low number of expatriates mentioned 'loose control structures' as a HQ's strategy. This could be identified as a HQ routine. Thus, the development to less Japanese expatriates in the upper management generally relates to a change in the HQ's strategy, i.e. a changing routine. The routine could be then; looser control structures in the form of less intensive contact between the subsidiary and the HQ. This change in routine could indicate the relationship between the two becoming less strong. This relationship could also influence the position and reputation the subsidiary takes within the MNE. This has already been explained.

From a longitudinal perspective, it is interesting to investigate the developments in nationalities of the subsidiary's upper management. Five subsidiaries indicated a decreasing number of Japanese expatriates in the upper management, five others indicated no change. One subsidiary, KWE (EA), mentioned an increase in the number of Japanese managers, but the local directors have become Europeans. Sometimes a management function is fulfilled by two people; one Japanese expatriate and one European person. The former is the one that is responsible for contacts with the HQ. This also occurs at some divisions of YME. This illustrates another routine identified: the role of Japanese expatriates to keep close contact with the HQ. Canon Europa, YME and KWE (EA) specifically mentioned this. Canon Europa (2010):

"The more Japanese within the upper management, the more contact with the Japanese HQ".

And YME (2010) stated:

"Our Japanese expatriates have more contact with the Japanese HQ than the Europeans. In the decision-making process both Japanese and non-Japanese play a role of course, but at critical moments of the process especially Japanese consult with Japanese".

When there are Japanese expatriates present in a subsidiary (which can be identified as a resource), the subsidiary has the competency to easy communicate with the Japanese HQ.

Generally, it seems that the 'local' subsidiaries, Sharp Electronics Benelux, Sigma Benelux and Yakult Nederland have less strong relationships with their parent compared to the European HQs interviewed. They seem to have more contact with their European HQ, only Sharp Electronics Benelux indicated direct contact with their parent, besides their contact with their European HQ. Within these subsidiaries HQ routines are indeed less mirrored in the corporate culture of the subsidiary, according to the interviewees.

#### **5.2.4 The role of the local environment in Japanese subsidiaries' evolution**

The interviews have shown that relationships can be initiated for different reasons. During the interviews, questions were especially asked about the importance of relationships with respect to knowledge insourcing and the development of their key competencies. Knowledge insourcing, i.e. obtaining knowledge from external parties that is not internally available but is considered to be needed, was mentioned to occur sometimes. Ricoh Europe (Netherlands), Sharp Electronics Benelux and Sigma Benelux mentioned that only for temporary projects consultants are hired to customise technological knowledge for instance. The reason mentioned by Sharp Electronics Benelux is the fact that their market changes faster than the capabilities of the employees, which could necessitate insourcing external knowledge. This was already explained. Other directors indicated that knowledge insourcing did not really occur within their subsidiary. The explanations they gave are as follows: all agreed that it is a typical aspect of the Japanese culture to aspire knowledge to be developed internally. Canon Europa, Hoshizaki Europe and Sharp Electronics Benelux mentioned this in particular. Underlying this aspiration is the lifetime employment many Japanese (expatriates) are characterised by. Hoshizaki Europe explained:

"When you look at Japanese companies, lifetime employment entails that companies possess all knowledge needed. An employee needs a particular background, experience et cetera. When he is employed in a company for a very long time, then he obtains these through internal development. If the company has a stronger turnover in personnel, then you often see that knowledge is taken with the leaving personnel but this is, generally, thus not the case for Japanese companies".

Internal development is argued to be achieved by trainings or specific (technical) academies for instance. The former was mentioned by Sigma Benelux and Sharp Electronics Benelux for instance, the latter by Koike Europe. Ricoh Europe (Netherlands) nuanced the trend of lifetime employment. This subsidiary acknowledged a decrease in lifetime employment within the Japanese culture. Nevertheless, the Japanese expatriates that are working in Japanese subsidiaries overseas, are generally employees with much experience within that MNE:

"The Japanese expatriates within Ricoh Europe (Netherlands), have been working in this company for many years. They usually get new assignments every five years but many expatriates have exceeded this period. Almost all expatriates switch functions every few years in order to become developed all-round. That is characteristic. Then, you get developed managers, which is typical for the Japanese culture" (Rico Europe (Netherlands), 2010).

Knowledge insourcing with respect to the development of competencies was not often mentioned and/or acknowledged. One of the subsidiaries that did acknowledge the importance of adapting to developments in the local market by means of insourcing knowledge is Sharp Electronics Benelux (2010):

"It is a challenge for the organisation to keep step with the developments. Some developments change very quickly, especially within Electronics, not everyone can keep up with that. You don't always have the means to just employ ten new specialists. If you cannot realise the knowledge internally [...] but it's necessary, then you hire people that possess that specific knowledge until you get the chance to source this into your organisation; that's what we aim at".

Yakult Nederland (2010) explained that knowledge is developed both internally and externally:

"Knowledge is obtained through a combination of internal and external sources. We keep up every development occurring outside the firm, either market or science based. Every country does research on these developments and every country has its own network to maintain relations with research institutions for example. These networks enable information to be exchanged. But also with our own people we discuss and evaluate the developments.

It appears that the insourcing of knowledge is to improve the competencies and consequently, the subsidiary's performance. To insource knowledge subsidiaries will search for resources, such as knowledge, human capital or networks. These resources could be certain relational assets; derived from (relationships with actors in) the local host environment.

Yokogawa Europe and Sigma Benelux mentioned good relationships with their clients to be of significance for the quality of their operations. Relationships with suppliers were specifically mentioned by Yokogawa Europe and Ricoh Europe (Netherlands), while KWE (EA) mentioned relationships with subcontractors to be very important. Sharp Electronics Benelux mentioned relationships with their traders, e.g. shops that sell their products, are very important. Research institutions do not seem to play a role in sales or production activities, rather in R&D activities. The database showed that R&D activities are not found to be main activities of Japanese subsidiaries in the Netherlands. As was illustrated above, Yakult Nederland mentioned to work with research institutions.

The role of KIBS within the local host environment of Japanese subsidiaries was specifically mentioned by Yanmar Europe and Ricoh Europe (Netherlands). The former explained that KIBS are used for judicial procedures and the latter for development projects. The role of relationships with local and regional authorities, such as municipalities or investment promotion agencies, has been interpreted differently. Yanmar Europe stated to have a good relationship with the municipalities of Almere and Amstelveen. Some subsidiaries mentioned that Japanese subsidiaries prefer to agglomerate. The reason for this is the fact that Japanese subsidiaries trust each other. Ricoh Europe (Netherlands) and KWE (EA) observe Japanese subsidiaries to prefer to work with other Japanese partners, a Japanese bank for instance.

From a longitudinal point of view, most subsidiaries interviewed stated that the importance of relationships rather increases than decreases over time. The reasons underlying this development differ: Koike Europe mentioned outsourcing to occur increasingly, Ricoh Europe (Netherlands) and Sigma Benelux mentioned scaling up, while Sharp Electronics Benelux mentioned the fast changing market and adaptation to market demands to influence the increase in relationships. Canon Europa, KWE (EA), Yakult Nederland and YME indicated a decrease in the importance of relationships over time. For example, Yakult Nederland stated that the knowledge they need is increasingly developed internally, in part through gaining experiences. Canon Europa explained the decrease by the fact that they are involved in the entire business chain. YME (2010) stated the following:

"I can imagine that subsidiaries that are newly established attach more value and importance to frequent contacts with regional authorities. In our case, we are located here for many years, we don't need their support anymore. But still these contacts are appreciated because it demonstrates that these authorities find the presence of our company relevant".

Generally, relationships are actively initiated by the Japanese subsidiaries. Only with respect to the relationships with governmental institutions, this was observed the other way around. Municipalities, *Amstelveen* and *Almere* in particular, are argued to take lots of initiatives with respect to investor development.

### **5.3 Key informants' analysis on Japanese subsidiary evolution**

After conducting eleven interviews with Japanese subsidiaries, four more interviews have been conducted with key informants. These interviews serve both to confirm findings of the database and the directors interviewed, and to illustrate some characteristics of Japanese subsidiaries in general.

#### **5.3.1 Trends in subsidiary evolution**

##### ***General trends***

Chapter 4 stated that most Japanese subsidiaries in the Netherlands are located in the Northwing. More specifically, most are located in the *Amsterdam Metropolitan Area*, a region that includes the municipalities *Amstelveen*, *Amsterdam*, *Haarlemmermeer* and *Almere*; the Northwing includes the *Amsterdam Metropolitan Area*. Japanese subsidiaries are diversified. All kinds of industries can be found within the population of Japanese subsidiaries in the Northwing and in the Netherlands (*Amsterdam in Business*, 2010). Table 5.3 has illustrated that some industries dominate, such as Electronics, Machines & Appliances, Automotive and Energy. *Amsterdam in Business* (2010) acknowledged this and explained that this is very different from India for example, which has mainly ICT firms investing in the Netherlands. The long-lasting relationship between the Netherlands and Japan in part underlies the diversity of the Japanese subsidiaries in the Netherlands; JCC/JETRO (2010) also explained that historical developments that have occurred, both economical and societal in nature, are important drivers of the evolution of Japanese subsidiaries. Thus, path dependency seems to be obvious; in the 1960s, exporting from Japan came up, in the 1980s, Japanese MNEs started to set up subsidiaries overseas. In the late 1980s and early 1990s, Japan and Europe were in a depression. Then, the Netherlands tried to reform the tax system, which has been very favourable for Japanese companies to invest in the Netherlands. Nowadays, the main reasons for Japanese subsidiaries to locate in the Netherlands are the fiscal advantages and the high quality of life (*Amsterdam in Business*, JCC/JETRO, 2010). The path dependency as described by JCC/JETRO corresponds with the information given in table 5.3 regarding the period of establishment.

*Amsterdam in Business* (2010) mentioned an upcoming competition from London to be a trend that appeared in the last few years. An increasing number of Japanese multinationals locate or relocate their European HQs or strategic divisions in London instead of Amsterdam. *Amsterdam in Business* argued that image is considered to be very important even though taxes, workforces and the airport in the Netherlands are ranked higher than in London and costs are lower in the Netherlands. The split European HQ of Canon Inc. between Amsterdam and London for example, can be seen as a model for other subsidiaries. This also could illustrate the preference of Japanese subsidiaries to agglomerate. Nevertheless, a movement from London to Amsterdam is visible too, but this is often the case for smaller firms that have more concerns regarding costs. This

trend of increasing competition from London was not recognised by JCC/JETRO. They told that some very 'old' multinationals, have or had their regional HQ in London:

"[...] At that time, everybody did that. Rather new Japanese companies [...] chose for European headquarters on the continent at least, for example Amsterdam" (JCC/JETRO, 2010).

Invest Utrecht (2010) mentioned that a trend appears of Japanese "small and medium enterprises" (SMEs) of different industries investing in the Netherlands (and Europe) due to the currently strong Japanese currency, the yen. The expensive yen reduces exports from Japan. Consequently, the economy shrinks so investments are declining. SMEs are less dependent on the yen and more flexible. Amsterdam in Business mentioned that upcoming 'themes' are sustainability and the creative industries, especially the gaming industry which currently has a strong position in Japan. This illustrates Japanese subsidiaries aiming at being innovative. Yokogawa Europe however, explained that this is nuanced in times of a declining economy.

### ***Trends in actual development***

With respect to the actual development of subsidiaries, in terms of activities, market scope, product scope, and mandates, some characteristics have come up. First, Yokogawa Europe (2010) and Amsterdam in Business (2010) mentioned a variety in the Japanese subsidiaries' activities. Production, assembly, development and sales are common; focusing on fine-tuning for the local market. Second, the interviews with Amsterdam in Business, Invest Utrecht and JCC/JETRO verify the statement of the subsidiaries interviewed that Japanese subsidiaries generally do not change much their activities. During the years of establishment in a region, activities are rather extended than newly developed. Japanese subsidiaries are characterised by having a 'wide' focus in what they do, Japanese multinationals are often involved in many stages of the business chain. Third, most subsidiaries that trade products have a wide product range and this is rather extended than narrowed during their evolution.

M&S activities are carried out the most at Japanese subsidiaries located in the Netherlands. The database analysis (table 5.3) also showed this. R&D activities are often carried out at the HQ in Japan. Invest Utrecht (2010) explained:

"R&D activities are often operated in Japan, that is their strength and they want to maintain that. M&S activities are much operated in the Netherlands, just like services. The latter is often operated 'locally' because of the time difference".

In terms of functional specialisation, this is not much observed by the key informants. Only JCC/JETRO said that this really depends on the subsidiary, some change their activities, others do not. They do not really observe specific patterns in this.

While the directors interviewed had interpreted the change in market scope differently, the key informants suggested that the market scope of Japanese subsidiaries generally increases during their evolution. When Japanese companies start an investment in the Netherlands, they generally do not consider the Netherlands as the target region, but mostly Europe. Over time they increase this to Africa or the Middle East for example. Like the interviews with subsidiaries suggested, it has been confirmed by JCC/JETRO (2010) that market scope is very important to Japanese subsidiaries. Amsterdam in Business argues that aiming at an increasing market scope is recently caused by a decreasing turnover, underlying two reasons; Japanese are economical, even more in these days, and the Japanese population is aging. A decreasing turnover means that firms have to invest abroad (also the SMEs mentioned). Together with the strong yen, this results in the establishment of foreign entities.

The key informants acknowledged that Japanese subsidiaries do not really aim at developing new mandates. Well executing the current mandate and retaining this mandate is an achievement in itself.

### 5.3.2 Trends in determinants for evolution

As the Japanese subsidiaries interviewed confirmed the decision-making authority of Japanese subsidiaries to be characterised by aspects of the *nemawashi* system, so do the key informants. Consensus and long procedures of decision-making are visible within subsidiaries (Amsterdam in Business, Invest Utrecht, JCC/JETRO, and Yokogawa Europe, 2010). The key informants confirmed the directors' statement that the HQ is always involved in the (process of) decision-making but that Japanese subsidiaries have room to take initiatives. This is influenced by the fact that local orientation increasingly becomes important, Japanese HQs ask the subsidiary for advise about doing business in the 'local' market, for example (Yokogawa Europe, JCC/JETRO, 2010). During a subsidiary's evolution, the decision-making authority and procedures do not really change (Amsterdam in Business, Invest Utrecht, JCC/JETRO, 2010). JCC/JETRO mention that only at the start the decision-making is more authorised to the Japanese HQ but after the start subsidiaries generally have a voice in decision-making. Overall, the degree of decision-making authority at European HQs is quite substantial. Subsidiaries with a Benelux or national scope will report to the European HQ, and subsequently, this HQ will report to the parent in Japan.

As the (main) activities and the decision-making procedures of Japanese subsidiaries do not change much during their evolution, so do not their responsibilities (mandates). All key informants agreed that the position of Japanese subsidiaries within multinationals does not increase per se over time. They explained that subsidiaries will always have to report to the HQ to some extent.

Differences between predominantly Japanese versus predominantly Dutch or European upper managements do exist. JCC/JETRO mention that there are two kinds of subsidiaries: some want to become increasingly European, while others do not want to change but remain "Japanese". But JCC/JETRO, together with Invest Utrecht, see a transition from Japanese members of the upper management to European ones. Nevertheless, the managing director in most Japanese subsidiaries is still of Japanese origin. An increasing local orientation is underlying this transition in strategy. Amsterdam in Business agrees with this, but mentions costs as a cause for the transition going on; expatriates are expensive. Costs have become more important in the last few years. Within the current economic situation the number of Japanese expatriates generally decreases (Amsterdam in Business and Yokogawa Europe, 2010). Another difference was mentioned by JCC/JETRO (2010):

"Our working system is lifetime employment, that is the culture. Career up is one of the big issues for Europeans and Americans. They have a function in a company for 3-5 years and then change for their career".

JCC/JETRO explained they are used to this phenomenon now but for Japanese it feels like someone just got to know the corporate culture, leaves, and then a new management must start again from the beginning.

All key informants mentioned that the proportion of Japanese expatriates versus local employees within subsidiaries differs. At regional HQs there are always some expatriates working. Differences exist in the role they fulfil. Real specialists are often Japanese expatriates but for sales functions it is generally more logical to have a local person



(Invest Utrecht, 2010). The culture of Japanese MNEs is underlying the presence of Japanese expatriates within subsidiaries; they trust Japanese so ask one of the best to go to the Netherlands or Europe to see how the situation is like and ask them to report this to the HQ. Related to trust is the guarantee of quality, another aspect which is very important for Japanese subsidiaries (Yokogawa Europe, 2010). JCC/JETRO (2010) agree: The Japanese expatriates know the company very well and they are the one that have most connections with the Japanese HQ, in order to ask for support and because communication is easy.

The key informants argued that relationships are considered to be important for Japanese subsidiaries during their evolution. It is remarkable that this view is different from the subsidiaries' view. As Amsterdam in Business (2010) expected research institutions to be important for subsidiaries operating in the Food industry, this was indeed found to be true for Yakult Nederland. R&D is often carried out in Japan (Invest Utrecht, 2010) or in other countries within Europe. The key informants especially mentioned governmental institutions (such as investor promotion agencies, local and regional authorities) and so called KIBS to be important economic actors with which Japanese subsidiaries develop relationships (Amsterdam in Business, Invest Utrecht, JCC/JETRO, 2010). The former are of significance because Japanese subsidiaries appreciate relationships based on trust and see these institutions as a stable factor. Both for the attraction and retention of foreign investments, called 'investor development', these institutions were argued to play an important role. The latter are of significance mostly for the (fiscal) establishment of foreign entities. Amsterdam in Business (2010):

"No other European country has such a high number of KIBS located in the same region as the Netherlands. We should not underestimate the importance of these KIBS. Accountants, tax advisors, they play a role in establishing fiscal entities being lucrative for Japanese companies. The majority of these KIBS have a Japan desk. That's very important. Japanese companies utilise these KIBS a lot".

Another role fulfilled by KIBS for Japanese subsidiaries was not mentioned by the key informants. The 'use' of KIBS is often on a temporary basis. For subsidiaries active in Food a university could be important as well. Amsterdam in Business also mentioned that Japanese subsidiaries maintain close contacts with each other and have a preference for Japanese partners in business related activities. According to Amsterdam in Business and Invest Utrecht, relationships are especially initiated and maintained by the governmental institutions rather than by the Japanese subsidiaries. In contrast, JCC/JETRO mention that Japanese subsidiaries also initiate contact with governmental institutions, they say it is part of their cultural history; "*We always respect authorities*" (JCC/JETRO, 2010). While Invest Utrecht stated that relationships increase during the development of a subsidiary, because knowledge and skills continuously change, Amsterdam in Business does not notice an increase, the overall importance of relationships remains substantial during a subsidiary's evolution, but some relationships are constituted temporarily, then the importance is temporary too. JCC/JETRO also argue that relationships rather increase over time. New comers imitate Japanese subsidiaries already established. After years of experience the know-how has grown but relationships remain important:

"Relationships are very important. When foreign firms come to the Netherlands they will need to develop their own network. Several resources are considered to be important and they need to obtain these; then networking and establishing relationships remain important over time" (Amsterdam in Business, 2010).

## 5.4 Analysis of the hypotheses

In chapter 4, it was argued that the hypotheses developed are to see whether some expectations based on the information in chapters 2 and 3 are observed. Moreover, these hypotheses serve as a guide for Japanese subsidiary evolution and hopefully will convey new insights that could improve or give rise to new researches.

After the first analysis of the database and the interviews in the previous sections of this chapter, it is relevant to analyse whether the reality matches the hypotheses. Per hypothesis an analysis is given.

1. *Japanese subsidiaries that are characterised by routines in the form of the Japanese decision-making system of nemawashi, rather extend existing mandates than develop new ones;*

The literature review has explained that mandates are a subsidiary's responsibility for a business or element of a business, for example in terms of markets served or products manufactured. The subsidiaries' and key informants' analyses have illustrated that when subsidiaries obviously show characteristics of the *nemawashi* decision-making system, like achieving overall consensus and deciding on the long-term, then gaining new responsibilities could be impaired. This is in part due to decision-making procedures being long and extensive.

The subsidiaries indicated that their mandate in terms of market scope generally increases over time but an increase in mandates in terms of employing new activities was not observed. The increase in market scope indicates rather a mandate extension, than a mandate newly developed. This corresponds with Birkinshaw & Hood's possible subsidiary evolution of *SDR* (see figure 2.1 on page 14). It should also be taken into account that mandate development relates to position development. Most interviewees indicated their subsidiary's position to increase over time but this is explained by an increased autonomy or a specific initiative. They did not specifically indicate changes in the decision-making authority.

To conclude, the relationship between these two factors was not found in the empirical research.

2. *Japanese HQs that apply 'loose control structures' to their subsidiaries, allow their subsidiaries more freely to initiate new activities than when these structures are not applied;*

When a Japanese HQ applies 'loose control structures', the HQ aspires the subsidiary to be autonomous to some extent and to take initiatives. Being autonomous and taking initiatives could be identified by a low level of HQ routines mirrored in the corporate culture of the subsidiary. One would also expect a low level of HQ routines to be adopted by the subsidiary when there is not much communication between the subsidiary and the HQ and when relatively less Japanese expatriates (at least not in management positions) are employed. Sharp Electronics Benelux and Koike Europe stated that this was true for their subsidiary. Their corporate culture is very different from the Japanese HQ, either because this was done consciously or because there is not much communication with the HQ (and their subsidiaries do not employ many Japanese expatriates).

The subsidiaries generally indicated that there is enough room for initiative-taking, as did the key informants. But in the interviews the initiating of *new* activities was not specifically observed. Only Koike Europe mentioned their initiative for a global standard line within the MNE in combination with a loose control structure. The low number of

interviews could contribute to the fact that specifically initiating *new* activities was not observed in the interviews. But the key informants also argued that Japanese subsidiaries do not much change their main activities.

3. *When a Japanese subsidiary is predominantly managed by Japanese expatriates, the position of a Japanese subsidiary within the MNE could increase less over time than when the management's nationality is predominantly European;*

The interviews with the subsidiaries have illustrated that Japanese expatriates, both in key positions or not, fulfil a communication role towards the HQ. Besides, Japanese (MNEs) very much build on trust and strong relationships. This, together with the fact that Japanese expatriates are often characterised by lifetime employment, indicates that Japanese HQs very much build on their Japanese colleagues. Japanese expatriates in a key position then, would have much contact with the HQ and build on relationships with the HQ. When the communication is stronger, the control of the HQ is often stronger too. This could possibly impair the positive development of the subsidiary's position because increasing its position is mostly achieved by increasing autonomy and increasing market scopes. Moreover, Japanese subsidiaries are generally risk-averse in contrast to European or American subsidiaries. This is typical of the Japanese culture (Yokogawa Europe, 2010). If a subsidiary wants its position within the MNE to increase, then there is always some risk-taking.

On the other hand however, a strong control by the HQ could also indicate the subsidiary is considered to be important to the HQ. But this does not directly show a relationship with the upper management's nationalities. When the upper management becomes less Japanese in terms of nationalities, this could also indicate a HQ's strategy based on local orientation.

To conclude, the presence of Japanese expatriates within the upper management indicates a relatively more risk-averse behaviour and the HQ keeping abreast of the subsidiary's operations. Based on this, the hypothesis appears to be true. Note however, that an increase in position is not always aimed at.

4. *When the decision-making authority is decentralised, the Japanese subsidiary rather gains mandates over time than when the decision-making authority is rather centralised;*

When decision-making authority is decentralised, the subsidiary itself makes important decisions about the subsidiary's operations. Gaining mandates can be established by starting new activities, increasing the market scope or specialising the product scope, for instance. Many European HQs were interviewed; the mandates mentioned are in most cases a coordination function for local subsidiaries or affiliates (often with a sales function). When their market scope increases because of the start-up of new local subsidiaries, the responsibilities of the coordinating subsidiary increase. However, it can also be a subsidiary's perception that their role as an 'implementer' is becoming more important, instead of actually increasing mandates.

When a dynamic perspective is taken into account, in most cases it was observed that the decision-making authority within Japanese MNEs was already decentralised from the beginning. Most subsidiaries interviewed stated that from the start of the subsidiary decisions are made by themselves, although not without participation of the HQ. This provides opportunities to increase responsibilities.

5. *Within Japanese subsidiaries with more HQ routines reflected in their corporate culture, less changes in activities (i.e. the adding or removing of activities) will occur than within Japanese subsidiaries with less HQ routines reflected in their corporate culture;*

HQ routines found in (most) subsidiaries are aspects of the decision-making system of *nemawashi*, being risk-averse, especially in these times of global and Japanese economic downturn, aiming at high quality and lifetime employment. These are characteristics that usually impede the start of new activities: new activities may be initiated because a chance in the market has emerged. If the decision to carry out a new activity takes long, the chance might already go past. The same is true when activities are removed. Moreover, opting for new activities is always accompanied by risk-taking. Aiming at high quality also suggests a subsidiary to focus rather on the products and services they have experience with. The subsidiaries indeed indicated that they rather improved their current competencies than developed new ones. The former option is easier than increasing quality by choosing new activities, although this is also a possibility to increase the quality. Subsidiaries that are characterised by lifetime employed expatriates (and possibly other employees too), generally have highly qualified people. This, in combination with Japanese expatriates being generally risk averse, would also not directly stimulate new activities to be initiated.

6. *When the Japanese HQ's concern for 'local orientation' increases within their Japanese subsidiary during its evolution, the importance attached to 'relational assets' of the local host environment will also increase over time;*

It was expected that MNEs with many local subsidiaries, being responsible for the market of a single country for instance, would be more locally orientated and therefore more involved in local relationships. Local orientation implies adapting to and having knowledge of the local market and the local host environment. The local orientation of Japanese subsidiaries was rather identified by the transition from a predominantly Japanese upper management to a more European upper management. But local orientation also suggests adjusting to local market demands. Then, relational assets in the local environment could be of significance to obtain knowledge from and about the local market demands. This was one of the reasons given for the increase in relationships with actors in the local environment. This was not unanimously acknowledged, however.

7. *The importance of relationships with a 'knowledge insourcing' function within a local host environment will increase as a Japanese subsidiary remains located in one location;*

The interviews have not demonstrated a single perspective with respect to the importance of relationships over time. The key informants argued that the importance of relationships generally increases during a subsidiary's development. Their explanation for this is the current emphasis on investor *development* which focuses on the retention and growth of foreign subsidiaries. The subsidiaries' interviewees responded differently to the question whether relationships in order to insource knowledge are established and if yes, increase or decrease over time. Most interviewees mentioned an increase, but they said these relationships are often temporary. In the end, all aim at developing the knowledge internally, instead of keep insourcing it. An increase of knowledge insourcing because of

functional specialisation within Japanese subsidiaries was not acknowledged. Functional specialisation (e.g. removing activities) does not occur much in Japanese subsidiaries.

This chapter has analysed the most relevant findings of the empirical research for this thesis. Overall, some similarities have definitely been found between the subsidiaries and key informants interviewed, and also among the subsidiaries interviewed. However, as been argued, this research cannot be interpreted as entirely representative for all Japanese subsidiaries in the Northwing. A number of 'cases' (subsidiaries) has been analysed, and this has shown that Japanese subsidiaries are generally diversified. Nevertheless, some trends and patterns characterising Japanese subsidiaries in general have been identified. The similarities found, in certain routines for example, mainly correspond to specific characteristics of the Japanese culture. The analyses made in this chapter enables forming a final conclusion and answer on the research question.

## 6 Conclusion and recommendations

This chapter will give a final conclusion on Japanese subsidiary evolution and the role of the local host environment in this. Firstly, in section 6.1 the research question will be answered, keeping a focus on the evolution of Japanese subsidiaries in the Northwing of the Randstad and the determinants that cause their evolutionary paths. Secondly, in section 6.2 the empirical research conducted will be discussed and some recommendations will be given.

### 6.1 Conclusion

In order to be able to give an answer to the research question of this thesis, this question will be quoted once more:

***How can the evolution of Japanese MNE subsidiaries in the Northwing of the Randstad be characterised and how is their development path influenced by the local host environment?***

After critically reviewing mainstream IB literature on subsidiary evolution, an introduction to the EEG approach was given. The latter perspective has illustrated the importance of the local host environment in subsidiary evolution, something which has been insufficiently acknowledged by the IB perspective. The emphasis on subsidiary evolution to be dynamic, influenced by routines, historical developments and strategic couplings, has formed the basis of the empirical research.

Japanese subsidiary evolution in the Northwing has been researched empirically through the in-depth interviewing of eleven (former) directors of Japanese subsidiaries in the Northwing and four key informants on this subject. These interviews have discovered some characteristics of the evolution of Japanese subsidiaries. Firstly, it has become clear that Japanese subsidiaries do not change much their activities during their evolution. Many Japanese MNEs are characterised by including most stages of the business chain. Functional specialisation does not occur that much too, although it was acknowledged that outsourcing does occur to reduce costs (but this is not specifically removing activities). R&D and production are often operated in Japan, but production is increasingly carried out locally as well. M&S are the main activities most common in Japanese subsidiaries located in the Northwing. R&D was not found to be a main activity of any Japanese subsidiary in the Northwing, and was production only hardly found. Although Japanese subsidiaries do not change much their (main) activities, the product scope generally increases over time. This depends partially on the products the Japanese HQ offers their subsidiaries (when produced in Japan) but it also depends on the (local) market the subsidiary is active in. The European market is very different from the American market for instance, the former consisting of many variously characterised countries compared to the latter. A heterogeneous market asks for adjusting to the different markets 'within' that market. Especially 'fast changing' markets, such as consumer goods, need to adapt their product scope to the (changing) market demands. This indeed emerged in the interviews, the Electronics subsidiaries for example, argued that their product range had increased during the years of development.

Secondly, the market scope of Japanese subsidiaries generally increases over time. This, together with a strive for scaling up, seems to occur when new local subsidiaries (or affiliates) are established in new countries. When regional HQs of Japanese MNEs have a coordination function, they take the responsibility for the establishment of new subsidiaries (or affiliates). While at the establishment of a regional HQ the market scope assigned to this HQ is either Benelux, Europe, EA or EMEA, the *actual* market scope can be smaller. During a Japanese subsidiary's actual development, shifts may take place to the Middle East or Eastern-Europe, for example. Changes in the market circumstances and demands also influence the market scope of a subsidiary.

Thirdly, changes in mandates during a subsidiary's evolution vary among Japanese subsidiaries. The previous paragraphs illustrated that mandates in terms of product and market scope generally increase over time. Note however, that increasing responsibilities of a regional HQ through an increased network of local subsidiaries do not always *actually* increase the mandates. A subsidiary can have a role perception that their mandates have increased. From the HQ's perspective however, subsidiaries can be seen as 'implementers', without the actual increase of responsibilities. This illustrates that mandates can have different perceptions. Differences exist between the *execution* and *development* of a mandate. Japanese subsidiaries appear not to always have the aim to develop new mandates in order to improve their performance. Well executing the current mandates is a good performance as well. Some aspects are underlying these perceptions of mandates.

The characteristics of Japanese subsidiary evolution described above are determined by several factors. These range between cultural, economical, historical and geographical determinants. Some of these were already mentioned, but further explanation of Japanese subsidiary evolution will be given.

The empirical research has illustrated that the three determinants the mainstream literature acknowledges are indeed found to influence subsidiary evolution. Although not specifically researched, global developments appear to have some impact on subsidiary evolution, although usually temporary. The economic downturn and expensive yen decrease exports and overseas investments and make Japanese MNEs more risk-averse than usual. The number of Japanese expatriates generally decreases also in these times, in order to reduce costs.

The first determinant is the Japanese HQ's business. This determinant appears to have a substantial influence. HQs are the initiators of new regional HQs, often with an underlying strategy of increasing the market scope of the whole MNE or scaling up. Japanese subsidiaries increasingly pursue a strategy of local orientation, which is a strategy generally transferred from the Japanese HQ. This shows that the corporate strategy underlies HQ's and subsidiary's routines. This will be explained later on. Besides, the decision-making authority is also of major importance to subsidiary evolution. Japanese HQs always have a say in the subsidiary's operations to some extent. During a subsidiary's evolution, the decision-making authority does not change much.

Secondly, subsidiary's choices are also found to serve as a determinant for subsidiary evolution. Several characteristics influence these choices and are consequently reflected in the mandates. One of these characteristics is the position of the subsidiary in the MNE and the reputation as viewed by the HQ. The key informants as well as the subsidiaries interviewed indicated that market scope is important for Japanese HQs to position their subsidiaries. A subsidiary with a wide market scope is generally found to be more important by the HQ than a subsidiary with a more narrow market scope. Furthermore, the level of autonomy has its influence on subsidiary's choices. A Japanese subsidiary

does not necessarily increase its autonomy over time. The degree of autonomy depends on the decision-making authority within the MNE. The latter does not really change during a Japanese subsidiary's evolution. Related to the level of autonomy, is the level of initiative-taking, also contributing to subsidiaries' choices. The directors and key informants argued that Japanese subsidiaries generally have much room to take initiatives. This can be explained by one of the characteristics of the Japanese decision-making system *nemawashi*; consensus. This illustrates the transfer of a HQ routine, namely the decision-making process of *nemawashi*, to its subsidiary. However, to some extent the HQ always has influence in decision-making of a subsidiary, thus in realising or not the initiatives.

The level of initiative-taking, autonomy and the reputation and position of the subsidiary within the MNE all contribute to the subsidiary's responsibilities. This can be explained by shedding light on the factors underlying these characteristics and the routines resulting from subsidiary's choices. Initial resources and competencies underlie these levels of taking initiatives and developing autonomy, and the subsidiary's position. Resources mentioned are human capital and internal knowledge. The former is realised through positioning the right people in the right place with the specific knowledge needed. This knowledge can be based in an employee's background and education. The latter is realised by means of the employee's knowledge and internal developments in the form of trainings or academies. These resources should contribute to competencies such as delivering good quality of the products, services or sales. The interviews showed a variety in competency development. Some subsidiary's competencies change over time, for example through gaining experience in the business. Others already existed from the establishment of the subsidiary and continue to exist. These resources and competencies form routines. An example of a HQ routine that is transferred to their subsidiaries is the decision-making authority characterised by consensus, resulting in long procedures of decision-making and long-term decisions. During a subsidiary's evolution, new competencies and resources can be developed. This will be explained after describing the third determinant of subsidiary evolution.

Finally, the environment plays a role in subsidiary development. The local host environment is characterised by several relational assets. Relational assets mentioned by the interviewees are knowledge of people, human capital, competitor's competencies, institutions and physical factors such as infrastructure. These assets are features that stimulate strategic couplings between the subsidiary and its local host environment. In order to realise the choices of subsidiaries, interactions with 'external' actors may be necessary. These interactions, or strategic couplings, will give access to relational assets present in the local host environment. Consequently, routines are developed which contribute to the actual evolution of a subsidiary. An example of such a routine is the Japanese culture to develop knowledge internally as much as possible, there is a desire for certain 'independence'. This routine is reflected in Japanese expatriates characterised by lifetime or long-term employments and frequently switching their functions. When employees work for the same firm for many years and change functions every few years, they become developed both all-round and specialised. This illustrates the influence of path dependency. Although lifetime employment seems to be not that strong in Japanese MNEs anymore, the Japanese expatriates in overseas subsidiaries are people that work in the same MNE for many years. Another routine that is visible is the transition to increasingly pursue a strategy based on local orientation. This routine is reflected in the transition of Japanese subsidiaries' upper managements increasingly becoming European. The increasing orientation on local markets suggests the need for external knowledge and to adapt to the local market circumstances and demands. In order to successfully



adapt to the local host environment, Japanese subsidiaries search for relationships within their local host environment. However, not all subsidiaries interviewed acknowledged this. The complex but advantageous Dutch tax system is one reason to interact with external actors. KIBS serve as advisors or knowledge suppliers to find the optimal fiscal constructions for Japanese subsidiaries. These actors are used temporarily. During a Japanese subsidiary's evolution, subsidiaries differently take advantage of external knowledge. Especially subsidiaries in fast changing markets argued that expertise could change faster than knowledge of the employees. In these cases external knowledge, being a resource, was searched for however, temporarily also. The fact that not all Japanese subsidiaries search for relationships with respect to knowledge development can be explained by their urge for internal knowledge development. It has already been explained how this knowledge is developed internally and the role of Japanese expatriates in this.

From a longitudinal perspective, some interviewees suggested the importance of relationships to increase over time because of changes in market demands, others mentioned a decrease because of the urge for internal knowledge development instead of insourcing it. Networking between subsidiaries was not mentioned much but some explained that Japanese subsidiaries search other Japanese ones for their operations.

An explanation for the different views on relationships with external parties in the local host environment could be found in the person that was interviewed. The interviewees of the Japanese subsidiaries, all Dutch, generally did not indicate an important role for governmental institutions, while the key informants indicated that this was important indeed.

## **6.2 Recommendations**

Section 6.1 provided final conclusions of the research that has been conducted in this thesis. Room for discussion and recommendations rests in order to improve further research and contribute to the scientific and societal relevance of this thesis.

It was argued why the empirical research conducted should be qualitative in nature. When analysing this method, it has indeed provided rich and detailed answers of interviewees and with that, interesting information on Japanese subsidiary evolution. Many answers given, and above all the interpretation of these answers, would not have been the same when a quantitative method would have been applied. A shortcoming of the empirical research conducted however, is the small number of cases that has been intensively analysed. Because of that, the findings cannot be fully generalised. To nuance this shortcoming, interviews with key informants have been conducted too. At some points they could verify or explain certain findings. In order to improve the quality of the empirical research, in terms of generalisation in particular, in-depth, semi-structured interviews could be combined with a structured questionnaire (sent to a large selection of subsidiaries) in further research.

The conclusion illustrated that Japanese subsidiaries show a trend aimed at local orientation. In order to find out the importance of the role of the local host environment in subsidiary evolution related to an increasing local orientation, a comparison with subsidiaries from other nationalities should be carried out in further research. JCC/JETRO mentioned comparing with Korean firms for example to be of interest, because these are upcoming within the Netherlands and resemble Japanese subsidiaries at some points. Some subsidiaries interviewed also indicated this.

Recommendations for local authorities, such as municipalities on investor development and investment promotion agencies, are provided in order to contribute to the societal relevance of this thesis. This relevance is directed to policy strategies based on the growth and retention of subsidiaries and the embeddedness of foreign investments within their host environment. The findings have shown that Japanese subsidiaries experience relatively little changes during their evolution. They find trust relationships very important. The fact that generally little changes occur, could indicate that Japanese subsidiaries do not really have reasons to leave and seem to be quite well embedded in their local host environment. This is in part caused by the long-term focus, high valuation of trust relationships and a good quality of life for Japanese in the Northwing. The level of initiative-taking (relatively high) seems to be contradictory to the change in activities observed (relatively low). Although Japanese MNEs are generally risk-averse, they also show to be innovative. Government policy strategies should specifically focus on themes like sustainability and the creative industries in order to attract and retain Japanese subsidiaries and consequently make the Northwing increasingly innovative. So far, this is not much acknowledged by the Dutch government in general (Elekan & Hermanides, 2010). Worse, investments related to foreign subsidiaries are returning into general investments instead of theme-specifically ones. This is not in line with the trend observed: *"Investment in research that is tied to social themes, such as sustainability, is the right way to stimulate innovations [...]"* (Elekan & Hermanides, 2010, p. 3).

The local host environment seems to be of importance to Japanese subsidiaries, although this was interpreted in different manners. It really depends on the subsidiary's characteristics; the managing director, the routines adopted from the HQ and reflecting the subsidiary's corporate culture et cetera, have influence on how the local host environment is valued. The widespread trend of an increasing focus on local orientation however, would suggest the local host environment to become increasingly important; Japanese subsidiaries would increase their embeddedness in their local host environment. Policy strategies should respond to this local orientation that is combined with a decreasing number of Japanese expatriates in economic worse times (currently the case in Japan). Costs of Japanese subsidiaries can be reduced when local (Dutch) upper managers are employed. Moreover, a focus on local orientation suggests that subsidiaries continuously need to adapt to local market demands and changes, therefore, interacting and building relationships with external actors seems to be relevant. Changes in economic developments occurring in the host environment lead to changing relational assets. This in turn influences the choices and consequently, the development of subsidiaries. This would increase the level of embeddedness which will be lucrative for the economic position of the Northwing. In general, local authorities should be aware of the necessity to both respond to the demands of Japanese subsidiaries but also actively initiate supplies (of Dutch employees for instance). Important at this point then, is to make sure that the relationships local authorities have with Japanese subsidiaries, are personal and continuous. Since tax advantages are important to Japanese subsidiaries, KIBS are argued to play an important role too. Stimulating KIBS to set up Japanese desks, which is highly valued by Japanese subsidiaries, will increase the 'value' of the local host environment. All this, would enhance the local orientation that is generally aimed at.

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#### **Yamaha Motor Europe N.V. (2010)**

<[www.yamaha-motor.eu](http://www.yamaha-motor.eu)>

<<http://www.yamaha-motor.co.jp>>

#### **Yanmar Europe B.V. (2010)**

<[www.yanmar.nl](http://www.yanmar.nl)>

<<http://www.yanmar.co.jp/en/>>

#### **Yokogawa Europe BV (2010)**

<[www.yokogawa.com/eu/](http://www.yokogawa.com/eu/)>

<<http://www.yokogawa.com/pr/IR/pdf/2010/201103tanshin-2q-en.pdf>>

## **Appendix 1 - Geographical demarcation of the Northwing of the Randstad <sup>2</sup>**

- Within the province of Noord-Holland the following municipalities (codes within brackets) are included in the Northwing:

*Aalsmeer (358), Amsterdam (363), Amstelveen (362), Beverwijk (375), Blaricum (376), Bloemendaal (377), Bussum (381), Diemen (384), Haarlem (392), Haarlemmermeer (394), Haarlemmerliede en Spaarnwoude (393), Heemskerk (396), Heemstede (397), Hilversum (402), Huizen (406), Laren (417), Landsmeer (415), Muiden (424), Naarden (425), Oostzaan (431), Ouderamstel (437), Uithoorn (451), Velsen (453), Waterland (852), Weesp (457), Wijdemeren (1696), Zaanstad (479), Zandvoort (473).*

- Within the province of Flevoland the following municipalities (codes within brackets) are included:

*Almere (034)*

- Within the province of Utrecht the following municipalities (codes within brackets) are included:

*Abcoude (305), Amersfoort (307), Baarn (308), De Bilt (310), Breukelen (311), Bunnik (312), Bunschoten (313), Eemnes (317), Houten (321), IJsselstein (353), Leusden (327), Loenen (329), Lopik (331), Maarssen (333), Montfoort (335), Nieuwegein (356), Oudewater (589), Renswoude (339), Rhenen (340), De Ronde Venen (736), Soest (342), Utrecht (344), Utrechtse Heuvelrug (1581), Veenendaal (345), Vianen (620), Wijk bij Duurstede (352), Woerden (632), Woudenberg (351), Zeist (355).*

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<sup>2</sup> The demarcation is derived from W. Jacobs, assistant professor at the department of Economic Geography, faculty of Geosciences, Utrecht University.

## Appendix 2 - Information about the interviewees

<b>Name of organisation</b>	<b>Function/position</b>	<b>Remarks</b>
Amsterdam in Business (Municipality of Amstelveen)	Director Amstelveen Office, foreign investment	
Canon Europa N.V.	Director EMEA Parts Operations	
Hoshizaki Europe B.V.	Director Administration and HR manager	Interview with two people
JCC	Chairman	
JETRO	Executive Director	
Kintetsu World Express	Manager business development EMEA	This person replaced the managing director
Koike Europe B.V.	Director Sales and Marketing EMEA	
Invest Utrecht (Province of Utrecht)	Project manager Europe & Asia	
Ricoh Europe (Netherlands) B.V.	Director Product Marketing Group / Director Ricoh Europe (Netherlands) B.V.	
Sharp Electronics Benelux B.V.	President	
Sigma Benelux B.V.	Managing Director	
Yakult Nederland B.V.	Managing Director	
Yamaha Motor Europe N.V.	Company Advisor	Former vice-president
Yanmar Europe B.V.	Managing Director	
Yokogawa Europe B.V.	Retired	Former strategist within the MT

## **Appendix 3 - Interview questionnaire – Japanese subsidiaries (in Dutch)**

### **1. Algemene gegevens**

1. *Naam bedrijf:*
  2. *Naam moederbedrijf:*
  3. *Naam geïnterviewde:*
  4. *Wat is uw functie binnen het bedrijf?:*
  5. *Sinds wanneer bent u hier werkzaam?:*
  6. *Kunt u kort vertellen wat het moederbedrijf doet? bedrijfstak*
  7. *Kunt u kort vertellen wat deze vestiging doet?*
  8. *Tot welke sector behoort uw/het bedrijf?*
  9. *Hoeveel werknemers heeft deze vestiging?*
  10. *Valt u ook onder een regionaal hoofdkantoor?:*
- Zo ja;*
11. *Waar is dat gevestigd?:*
  12. *Hoeveel vestigingen heeft de multinational in Nederland?*
  13. *Wat is het jaar van oprichting van deze vestiging?*
  14. *Is deze vestiging zelf opgericht of een overname?*
  15. *Wat is het jaar van vestiging op deze locatie?*

### **2. Ontwikkeling van de vestiging**

#### **A. Veranderingen activiteiten**

16. *Welke huidige hoofdactiviteiten worden er uitgevoerd binnen deze vestiging?*
  17. *Welke nevenactiviteiten worden er naast de hoofdactiviteit(en) uitgevoerd door deze vestiging?*
  18. *Wat is het huidige marktbereik van deze vestiging?:*
  19. *De activiteit(en) die u net aangaf, zijn dat ook de activiteiten waarmee destijds in deze vestiging is begonnen?*
- Zo ja;*
20. *Wat is de belangrijkste reden dat deze vestiging geen nieuwe activiteiten is gaan uitvoeren?*



Past niet in strategie HQ, nieuwe activiteit naar andere vestiging, vestiging heeft niet het competentieprofiel voor nieuwe activiteiten, onvoldoende macht

*Zo nee bij 19;*

21. *Met welke activiteiten is deze vestiging dan begonnen?*

*Zo nee bij 19;*

22. *Zijn er activiteiten bijgekomen of weggegaan?*

*Zo ja;*

23. a. *Kunt u vertellen hoe de ontwikkeling van de beginactiviteit(en) tot de huidige activiteiten is verlopen?*

Toevoegen: Markt/klanten beter bedienen, schaalvergroting of -verkleining, technologische ontwikkeling in product branche, overname

Afstoten: als gevolg van strategie HQ, verplaatst naar andere vestiging, ontwikkeling markt, onvoldoende competenties/kennis

b. *Heeft er gaandeweg specialisatie plaatsgevonden?*

## **B. Veranderingen in markt bereik**

24. *Is het geografisch markt bereik van deze vestiging veranderd sinds de oprichting/overname?*

*Zo ja;*

25. *Hoe is dit geografisch markt bereik dan veranderd?*

*Zo ja;*

26. *Wat was de reden voor deze verandering in markt bereik?*

Toename: Meer marktkennis en competenties, regionale integratie, samengaan van vestigingen, anders...

Afname: nieuwe vestigingen, algehele krimp activiteit/onderneming, anders...

27. *Al met al, hoe zou u de verantwoordelijkheden van deze vestiging binnen de portfolio, activiteiten en markten van de onderneming omschrijven?*

28. *Is dit veranderd sinds de oprichting/overname?*

Verschil activiteiten en rol, mandaat ontdekken

Wat is het mandaat en hoe is het veranderd?

## **3. Determinanten voor ontwikkeling van de vestiging**

### **C. Besluitvorming**

29. *Waar worden belangrijke beslissingen omtrent het opereren van deze vestiging meestal genomen?*

HQ, RHQ, deze vestiging

30. *Worden belangrijke beslissingen al sinds de oprichting van deze vestiging al bij het ..... [HQ, RHQ, deze vestiging] genomen?*

*Zo ja;*

31. *Kunt u een reden bedenken waarom dit zo is?*

*Indien verandering in activiteiten en/of verandering in plaats van besluitvorming*

32. *Bij wie lag de beslissing om de verandering(en) in verantwoordelijkheden en/of activiteiten door te voeren?*

HQ, EHQ, deze vestiging; per verandering in activiteit aangeven

33. *Is degene die de beslissing nam ten aanzien van de verandering(en) in verantwoordelijkheden/activiteit(en) ook de initiator hiervan geweest?*

*Zo ja;*

34. *Kunt u een voorbeeld geven van hoe dit eigen initiatief uiteindelijk leidt tot het besluit om (een) nieuwe activiteit(en)/verantwoordelijkheden uit te voeren?*

Vond er overleg plaats met HQ/RHQ en wanneer, op welke manier

35. *Kunt u vertellen hoe de besluitvormingsprocedure binnen deze vestiging gekenmerkt/uitgevoerd wordt?*

#### **D. Positie in de multinational**

36. *Hoe zou u de huidige positie en status van deze vestiging binnen de gehele multinational willen karakteriseren?*

Opstartend en zoekende, productspecialist, goed in huidige mandaat, strategisch onafhankelijk, vergrotend van het huidige mandaat, anders ...

37. *Hoe karakteriseert u deze huidige positie in de multinational ten opzichte van andere (Europese) vestigingen?*

Belangrijker, even belangrijk, minder belangrijk

38. *Is de positie van deze vestiging in de gehele multinational sinds de oprichting van deze vestiging veranderd?*

*Zo ja;*

39. *In welk opzicht en waardoor is deze positie veranderd?*

Hoe: Hoger/lager; Mate van inspraak in beleid, mate van controle door HQ

Door: prestaties, sluiting vestigingen, overname, koersverandering bij HQ, anders

40. *Welke betekenis heeft de (verandering van) positie van deze vestiging voor de manier/procedures van besluitvorming omtrent het opereren van deze vestiging?*

#### **E. Strategie en competentieprofiel**

41. *M.b.t. strategie; Met welke strategie of doel werd deze vestiging begonnen?*

Ontplooiën van nieuwe activiteiten, schaalvergroting, winst, vergroten marktaandeel

*Indien verandering in activiteiten en/of verandering in plaats van besluitvorming*

42. *Is deze strategie/dit doel veranderd met de veranderingen in (de uitvoering van) activiteiten en/of verantwoordelijkheden?*

*Zo ja;*

43. *Wat waren/zijn de achterliggende strategieën/doelen geweest bij de veranderingen in (de uitvoering van) de activiteiten en/of verantwoordelijkheden?*

44. *Door wie werden deze strategieën/doelen vastgesteld? (beantwoorden per 'nieuwe' strategie/doel)*

HQ, EHQ, deze vestiging

45. *Wat zijn voor het hoofdkantoor de belangrijkste graadmeters van het succes van deze vestiging?*

46. *Hoe zorgt deze vestiging ervoor dat ze positief blijven scoren op deze graadmeters?*

Waar legt de vestiging de nadruk op bij het ontwikkelen van competenties

47. *Welke kwaliteiten heeft deze vestiging?*

Kerncompetenties, capabilities

48. *Hoe onderscheidt deze vestiging zich van haar belangrijkste concurrenten?*

49. *Wat is voor deze vestiging essentieel om deze kwaliteiten te ontwikkelen?*

Kennis, kapitaal, anders...

50. *Hoe ontwikkelt deze vestiging deze kwaliteiten?*

Uitsluitend HQ, uitsluitend deze vestiging, beide, mede vanuit derden; welke derden?

*Indien verandering in activiteiten en/of verandering in plaats van besluitvorming*

51. *Zijn de zojuist genoemde kwaliteiten van deze vestiging veranderd gedurende de veranderingen in (de uitvoering van) de activiteiten en/of verantwoordelijkheden?*

Zo ja;

52. *Zijn de kwaliteiten veranderd naarmate er meer ervaring is opgedaan met het uitvoeren van de activiteit van deze vestiging?*

53. *Is de nationaliteit van het management van belang voor het ontwikkelen van de genoemde kwaliteiten?*

Zo ja;

54. *Hoe zag de nationaliteit van het management eruit tijdens de oprichting van deze vestiging?*

Nederlands, Japans, beide

55. *Is de samenstelling van het management naar nationaliteit veranderd sinds de oprichting?*

Zo ja;

56. *Hoe is deze samenstelling veranderd?*

Minder Nederlanders/Europeanen, meer Japanners, meer Nederlanders/Europeanen, minder Japanners, volledig Nederlands/Europees of Japans geworden

57. *Beïnvloedt het hebben van een Amerikaans/Japans hoofdkantoor de bedrijfscultuur van deze vestiging?*

Corporate culture, werkhouding, individualisme, verantwoordelijkheden (aanwezigheid van expats)

*Indien expats in de vestiging aanwezig*

58. *Hoe omschrijft u de invloed van de aanwezigheid van expats in management posities in deze vestiging?*

Communicatie, routines, samenwerking, cultuur, verandering invloed van HQ

## **F. Relaties met de omgeving/externe partijen**

59. *Zijn het ontwikkelen van relaties met actoren in de lokale omgeving van belang voor deze vestiging?*

60. *Spelen relaties met toeleveranciers een belangrijke rol bij het ontwikkelen van de competenties van deze vestiging?*

61. *Spelen relaties met belangrijke klanten een belangrijke rol bij het ontwikkelen van de competenties van deze vestiging?*

62. *Spelen relaties met kennisinstellingen een belangrijke rol bij het ontwikkelen van de competenties van deze vestiging?*

63. *Spelen relaties met zakelijke dienstverleners een belangrijke rol bij het ontwikkelen van de competenties van deze vestiging?*

64. *Spelen relaties met overheidsinstellingen een belangrijke rol bij het ontwikkelen van de competenties van deze vestiging?*

65. *Is het belang van relaties met lokale externe partijen toegenomen of afgenomen sinds het vestigingsjaar?*

*Indien positief antwoord bij vragen 59-64*

66. *Op welke manier dragen zij bij aan de ontwikkeling van de competenties van deze vestiging?*

Leveren van kennis of andere unieke input, wat beoogt de vestiging uit samenwerking te halen?

*Indien positief antwoord bij vragen 59-64*

67. *Hoe komen deze relaties tot stand?*

Vestiging neemt zelf initiatief of relaties ontstaan door toevallige ontmoetingen

*Indien negatief antwoord bij vragen 59-64*

68. *Kunt u een reden bedenken waarom relaties met externe partijen geen rol van betekenis spelen bij de ontwikkeling van de competenties van deze vestiging?*

## **Appendix 4 - Interview questionnaire – Japanese subsidiaries (in English)**

### **1. General data**

1. *Name of subsidiary:*
2. *Name of parent:*
3. *Name interviewee:*
4. *What is your function within this subsidiary?:*
5. *Since when do you work here?:*
6. *Could you shortly explain the main business of the parent?*
7. *Could you shortly explain the main business of this subsidiary?*
8. *To which industry/branch does this subsidiary belong?*
9. *What is the number of employees of this subsidiary?*
10. *Is this subsidiary subordinated to a regional HQ?:*  
*If yes;*
11. *Where is the RHQ located?:*
12. *What is the number of subsidiaries (of this MNE) within the Netherlands?*
13. *What is the year of establishment of this subsidiary?*
14. *Is this subsidiary a greenfield investment or an acquisition?*
15. *What is the year of establishment of this subsidiary at this location?*

### **2. Development of the subsidiary**

#### **A. Changes in activities**

16. *What are the current main activities of this subsidiary?*
17. *What are the secondary activities carried out besides the main activities?*
18. *What is the current market scope of this subsidiary?:*
19. *The activities you just mentioned, are these the same activities with which the subsidiary started?*  
*If yes;*
20. *What is the main reason for the fact that this subsidiary has not started new activities?*

*If no at 19;*

21. *What are the activities the subsidiary started with?*

*If no at 19;*

22. *Have activities been added or removed?*

*If yes;*

23. a. *Could you describe the development path from the activities the subsidiary started with to the current activities?*

b. *Did specialisation take place during this development path?*

## **B. Changes in market scope**

24. *Has the geographical market scope changed since the establishment/acquisition of this subsidiary?*

*If yes;*

25. *How has the market scope changed then?*

*If yes;*

26. *What was the main reason for this change in market scope?*

27. *Overall, how would you describe the responsibilities of this subsidiary within the MNE's portfolio, activities and markets?*

28. *Have these responsibilities changed since the establishment?*

## **3. Determinants for the development of the subsidiary**

### **C. Decision-making**

29. *Where are important decisions about the operations of this subsidiary taken most of the times?*

30. *Were important decisions taken by the ..... [HQ, RHQ, this subsidiary] since the establishment of this subsidiary?*

*If yes;*

31. *Could you think of a reason for this?*

*In case of change in activities and/or changes in the decision-making authority?*

32. *Who was responsible for decisions made about the change(s) in activities and/or responsibilities?*

33. *Is/was the decision-maker with respect to change(s) in activities and/or responsibilities also the initiator?*

*If yes;*

34. *Could you give an example of how the own initiative-taking eventually led to the decision to carry out new activities and/or responsibilities?*

35. *Could you describe how the procedures of decision-making within your subsidiary are characterised/carried out?*

#### **D. Position within the multinational**

36. *How would you characterise the current position and status of this subsidiary within the whole MNE?*

37. *How do you characterise the current position in the MNE compared to other (European) subsidiaries?*

38. *Has the position of this subsidiary within the whole MNE changed since the establishment of this subsidiary?*

*If yes;*

39. *How and by what has this position been changed?*

40. *What is the influence of the (change in) position of this subsidiary for the procedure of decision-making with respect to the operations of this subsidiary?*

#### **E. Strategy and competence profile**

41. *What was the main strategy/were the main goals at the start of this subsidiary?*

*If change in activities and/or decision-making authority*

42. *Has/have this strategy/ these goals changed together with the changes in activities and/or responsibilities?*

*If yes;*

43. *What were the strategies/goals behind the changes in activities and/or responsibilities?*

44. *Who set out these strategies / set these goals?*

45. *What are, from the view of the headquarters, the most important success indicators of this subsidiary?*

46. *How does this subsidiary make sure they score positively on these indicators?*

47. *What are the most important capabilities/qualities of this subsidiary?*

48. *How does this subsidiary distinguish itself from its competitors?*

49. *How does this subsidiary develop these capabilities/qualities?*

50. *What are the most important inputs for the development of these capabilities/qualities?*

*If change in activities and/or decision-making authority*

51. *Have the before mentioned capabilities/qualities changed during the changes in activities and/or responsibilities?*

*If yes;*

52. *Have these qualities/capabilities changed while gaining experience with the current activity?*

53. *Is the nationality of the management of this subsidiary of importance for developing the before mentioned capabilities/qualities?*

*If yes;*

54. *What was the composition of the higher management with respect to their nationality at the start of this subsidiary?*

55. *Has the composition of nationalities in higher management changed since the year of establishment?*

*If yes;*

56. *How has this composition changed?*

57. *How does having an American/Japanese parent company affect the corporate culture at this subsidiary?*

*If expats are present in the subsidiary*

58. *How would you describe the influence of the presence of expats in management positions in this subsidiary?*

#### **F. Relationships with external parties in the local host environment**

59. *Is the development of relationships with actors in the local environment of importance for this subsidiary?*

60. *Are relationships with suppliers important for the development of the capabilities/qualities of this firm?*

61. *Are relationships with customers important for the development of the capabilities/qualities of this firm?*

62. *Are relationships with research institutions important for the development of the capabilities/qualities of this firm?*

63. *Are relationships with professional services firms important for the development of the capabilities/qualities of this firm?*

64. *Are relationships with governmental institutions important for the development of the capabilities/qualities of this firm?*

65. *Has the importance of relationships with local external parties increased or decreased since the year of establishment?*

*If questions 60-65 are answered positively*

66. *How do they contribute to the development of the capabilities of this establishment?*

67. *How do these relations come to be?*

*If questions 60-65 are answered negatively*

68. *Could you think of a reason why relationships with external parties are not important for developing this subsidiary's capabilities?*



## **Appendix 5 - Interview questionnaire– key informants (in Dutch)**

### **1. Algemene gegevens**

1. *Naam:*
2. *Bedrijf/organisatie:*
3. *Wat houdt uw functie precies in?*
4. *Welke rol voert u binnen uw functie uit ten aanzien van Japanse bedrijven?*
5. *Hoe lang bent u al actief in deze functie?*

### **2. Ontwikkeling Japanse bedrijven**

#### **A. Activiteiten, markt bereik, product range**

6. *Zijn er trends zichtbaar in het opereren van Japanse dochterondernemingen?*
7. *Zo ja; welke trends zijn er zichtbaar?*
  - *Welke activiteiten worden veelal uitgevoerd?*
  - *Veranderen Japanse dochterondernemingen hun activiteiten? Zo ja, hoe? Zo nee; waarom niet?*
  - *Ziet u specialisatie plaatsvinden binnen Japanse bedrijven?*
  - *Veranderen Japanse dochterondernemingen hun markt bereik? Zo ja, hoe?*
  - *Veranderen Japanse dochterondernemingen hun product range? Zo ja, hoe?*
  - *Welke factoren of gebeurtenissen hebben geleid tot deze trends?*
8. *Zijn trends in de loop der jaren (afgelopen 10 jaar) veranderd?*
9. *Ziet u verschillen tussen bedrijven die hier lang of kort gevestigd zijn?*
10. *Zo ja; welke verschillen ziet u?*
11. *Zo nee (geen trends); hoe komt het dat er geen trends zichtbaar zijn binnen Japanse bedrijven?*

### **2. Determinanten voor de ontwikkeling Japanse bedrijven**

#### **B. Besluitvorming, initiatief nemen**

12. *Kunt u aangeven hoe de besluitvorming binnen Japanse bedrijven uitgevoerd wordt?*
13. *Nemen Japanse bedrijven veel eigen initiatief?*  
*Ja, nee, soms. Indien soms, wanneer wel, wanneer niet?*
14. *Ziet u veranderingen in de besluitvorming optreden naarmate Japanse dochterondernemingen hier langer zitten?*
15. *Zo ja; welke veranderingen zijn zichtbaar?*

#### **C. Positie ontwikkeling binnen multinationals**

16. *Heeft u inzicht in de positie van dochterondernemingen binnen hun multinational?*

17. *Zo ja; zijn er bepaalde trends zichtbaar in de positie (verandering) van Japanse dochterondernemingen?*

18. *Ziet u verschillen in bedrijven met een Japans versus Nederlands of Europees management?*

19. *Zo ja; welke verschillen zijn zichtbaar?*

20. *Ziet u verschillen in bedrijven met veel of weinig Japanse expats (niet per definitie in management posities)?*

21. *Zo ja; welke verschillen zijn zichtbaar?*

#### **D. Relaties met externe partijen**

22. *Denkt u dat Japanse bedrijven gebruik maken van externe partijen in hun lokale/regionale omgeving?*

Bijvoorbeeld kennis- en onderzoeksinstellingen, overheidsinstellingen (gemeente, provincies, investeringspromotie agentschappen), zakelijke dienstverleners

23. *Zo ja; welke partijen zouden dit dan zijn?*

24. *Zo ja; waar worden die partijen voor gebruikt?*

Kennis, ervaring en ontwikkeling kwaliteiten

25. *Zo ja; hoe komen die relaties tot stand?*

26. *Nemen relaties met externe partijen toe of af naarmate een Japanse dochteronderneming hier langer gevestigd is?*

27. *Zo ja; welke relaties nemen dan respectievelijk toe/af gedurende de ontwikkeling van een dochteronderneming?*

## **Appendix 6 - Interview questionnaire– key informants (in English)**

### **1. General data**

1. *Name:*
2. *Organisation:*
3. *Could you both shortly explain your function?*
4. *What is specifically your role with respect to Japanese subsidiaries in the Netherlands?*
5. *Since when are you active in this function?*

### **2. Development of Japanese subsidiaries**

#### **A. Activities, market scope, product range**

6. *Are there any trends or patterns visible in the operations of Japanese subsidiaries in the Northwing (Netherlands in general)?*
7. *If yes; which trends or patterns are visible?*
  - *Which activities are predominantly carried out within the Northwing? Is this different from the rest of the Netherlands?*
  - *Do Japanese subsidiaries change their main activities during their development (i.e. adding or removing of activities?) If yes; why and how?*
    - If no; why not?*
  - *Do you see functional specialisation occurring within Japanese subsidiaries?*
  - *Do Japanese subsidiaries change (i.e. increase or decrease) their market scope? If yes; what pattern is generally seen?*
  - *Do Japanese subsidiaries change their product scope or range? If yes; how and is this typical for specific industries?*
  - *Which factors or events have led to the described trends and patterns? Are these cultural and/or economical in nature?*
8. *Have trends or patterns (just described) changed within the last decade?*
9. *Do you see differences between subsidiaries being located long or short in this area (i.e. more or less embedded)*
10. *If yes; what kind of differences do you see?*
11. *If no; (no trends/patterns); what is the reason for no trends or patterns to be visible within Japanese subsidiaries?*

### **2. Determinants for the development of Japanese subsidiaries**

#### **B. Decision-making and initiative-taking**

12. *Could you indicate how the decision-making within Japanese subsidiaries is characterised?*
13. *Do Japanese subsidiaries take a lot of own initiatives?*  
*Yes, no, sometimes. If sometimes; when do they, when don't?*

14. *Do you see that changes in decision-making occur when Japanese subsidiaries are more embedded in a region (the Northwing), i.e. when they are located here for a longer period?*

15. *If yes; which changes do occur?*

### **C. Development of position within the multinational**

16. *Do you have insight in the position of Japanese subsidiaries within their multinational?*

17. *If yes; are there any specific trends or patterns in the position and changing of the position visible?*

18. *If yes, what kind of trends/patterns are visible?*

19. *Do you see differences in Japanese subsidiaries with respect to a fully or predominantly Japanese higher management versus a fully or predominantly European higher management?*

20. *If yes; what kind of differences are visible?*

21. *Do you see differences between Japanese subsidiaries with many versus (almost) no Japanese expatriates? (not in management positions per se)*

22. *If yes; what kind of differences do you see, for example with respect to the role they have*

### **D. Relationships with external parties within the local host environment**

23. *Do you think that Japanese subsidiaries utilise external parties in their local host environment?*

24. *If yes; what kind of parties or actors do they have relationships with?*  
E.g. scientific- or research institutions, governmental institutions (local, regional authorities, investment promotion agencies) or business services/professional services firms

25. *If yes; what is the function of utilising these actors/ networking or having relationships with them?*

Knowledge, experience, development of qualities, competencies

26. *If yes; how do these relationships establish?*

27. *Do relationships increase or decrease as Japanese subsidiaries are located/more embedded in a region/the Northwing for a longer time?*