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Japanese Management Styles: to Change or Not to Change? A Subsidiary Control Perspective

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Abstract

This study examines whether the Japanese management style should be reconsidered in emerging markets, from the subsidiary control perspective. Japanese companies have a specific management style and they are used to bringing their specific management style into overseas businesses. However, considering the dynamism of emerging markets and the feature of Japanese management that is to stabilize the business situation by strong headquarters' control, the transfer of the Japanese management style might be unsuitable for them. Instead, a more adaptive approach might be needed. Using overseas subsidiary control theory, we develop the hypothetical structure of the phenomenon that happens there. We then examine our hypotheses using survey data from Japanese subsidiaries.The results show that the transfer of Japanese way does not contribute to improving subsidiary performance in emerging markets, but the departure from it does. In addition, the acceptance of local culture, headquarters' decentralization, and creating local partnership promote thatdeparture.

Keywords: Emerging markets, international business, Japanese management, knowledge transfer, strategic change, andsubsidiary control

1. Introduction

This study examines whether or not Japanese multinational corporations (MNCs) should change their business approach in emerging markets, from the viewpoint of subsidiary control theory. These days, Japanese MNCs have accelerated their entry into and capture of emerging markets (Delios and Henisz, 2000; Gupta, Wakayama, and Rangan, 2012; Shintaku and Amano, 2009; Usui, 2015). While Japanese companies had been pioneers in leveraging emerging countries' advantages in manufacturing (Abo, 1994; Delios and Henisz, 2000), they have suffered from poor market success in emerging countries. One of the chief reasons for this failure is thought to be the conventional Japanese international management style: Japanese companies are used to bringing a specific management style (Abbegren and Stalk, 1985) even into overseas businesses (Abo, 1994; Buckley, 2009), and they tend to introduce products and services similar to those in their home country (Bartlett and Ghoshal, 1989; Kotabe and Okoroafo, 1990). However, past qualitative studies have found that such intensive transfer of the home country's way-of-business impeded the adaptation of Japanese companies to emerging markets' customer needs, income levels, practices, or culture (Amano et al, 2015; Buckley and Horn, 2009; James and Jones, 2014; Mathew and Jones, 2012; Shintaku and Amano, 2009). We therefore try to statistically examine whether Japanese companies should apply their home base's way-of-business, or change it in emerging markets.

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At the same time, this study also tries to contribute to the theory by obtaining further understandings of subsidiary control. As a theoretical basis, we use the framework of management control of subsidiary (Birkinshaw and Morrison, 1995; Nohria and Ghoshal, 1994). Although most past studies on Japanese management style have considered that the Japanese style has its own peculiar logic and rationale (Abegglen and Stalk, 1985; Buckley and Horn, 2009; Shintaku and Amano, 2009; Ouchi, 1981), some past studies have shown that it could be explained by the subsidiary control theory (Jaeger, 1983; Kopp, 1994; Pudelko and Tenzer, 2013). Drawing on those preceding studies, we develop a structural model that can capture the causal relationships that happen to Japanese companies in emerging markets. By examining it, we try not only to analyse the actual situation of Japanese companies, but also to obtain relational structure of subsidiary control, change or maintenance of parent company's way, and the ultimate business performance in overseas markets: When foreign market conditions demand a change from parent company's business style, the parent should give autonomy to the subsidiary because it facilitates the change and decreases the degree of transfer of the parent company's way-of-business.

2. Literature review

2.1 What is Japanese management style?

Let us start from the review of past studies on Japanese companies' overseas business styles. It is well-known that Japanese companies have specific management systems like Kaizen, lifetime employment, multi-skilled labour, "Eigyo" (sales force) intensive marketing, incrementalism, and the Keiretsu system (Abegglen and Stalk, 1985; Aoki and Dore, 1994; Asanuma, 1989; Johansson and Nonaka, 1996; Ouchi, 1981). Similarly, they have distinctive features in international management, characterized by the tendency towards ethnocentrism (Bartlett and Ghoshal, 1989, 1999; Buckley and Horn, 2009; Johannsson and Nonaka, 1983; Kopp, 1994; Taylor, 1999; Usui, 2015).

The first feature of Japanese companies' overseas activities is the intensive transfer of the Japanese way-of-business to overseas subsidiaries. Bartlett and Ghoshal (1989, 1999) classified Japanese companies' international management style as a "global" approach that entails world-level integration of operations to capture the benefits of efficiency. To achieve globally integrated operations, Japanese companies make efforts to disseminate their way-of-business among overseas subsidiaries (Abo, 1994; Bartlett and Yoshihara, 1988; Taylor, 1999). Of course, there have been noteworthy exceptions, especially in recent years (Buckley and Horn, 2009). However, the emphasis on knowledge transfer from Japan to foreign subsidiaries has broadly been the most observed characteristic of Japanese companies. As a result, Japanese MNCs tend to apply marketing strategies successfully used in their home country to overseas businesses (Bartlett and Ghoshal, 1989; Bartlett and Yoshihara, 1988; Buckley, 2009; Henisz and Delios, 2001; Johansson and Nonaka, 1983; Usui, 2015). It is quite true of marketing in foreign countries: They often introduce products, marketing mix, and way of selling in foreign subsidiaries that are similar to their home countries (Bartlett and Ghoshal, 1989; Chang, 1995; Hong, Easterby-Smith and Snell, 2006; Johansson and Yip, 1994; Kotabe and Okoroafo, 1990; Yip, 1996).

Second, there are indications of Japanese headquarters exercising strong authority over overseas subsidiaries. Japanese headquarters prefer to control overseas subsidiaries' operations as they want (Kopp, 1994; 1999). According to the "Survey on Overseas Business Activities 2007" (Japanese Ministry of Economy, Trade and Industry, 2007), the ratio of assigning managerial decisions to local personnel or participating non-Japanese in Japanese overseas subsidiaries is generally lower than in the European and American ones. Japanese headquarters tend to be continuously involved in planning strategies for overseas subsidiaries, allowing their subsidiaries to modify them only slightly to fit with local context (Chang, 1995; Johansson and Nonaka, 1983; 1996; Kotabe and Okoroafo, 1990).

Third, looking at the soft side of the Japanese style of international operations, Japanese MNCs prefer to integrate the global organization within one corporate culture (Hong, Easterby-Smith, and Snell. 2006; Keely, 2001). Since Japan has a high-context culture, the Japanese management system relies heavily on shared cultural context (Abegglen and Stalk, 1985; Hall and Hall, 1987; Hedlund and Nonaka, 1993; Ouchi, 1981). Thus, for realizing globally integrated operations, Japanese companies try to maintain the same corporate culture at their headquarters and their overseas subsidiaries, (Jaeger, 1983; Keely, 2001; Hong, Easterby-Smith, and Snell. 2006; Yoshino, 1976). This is mostly achieved through a face-to-face communication between the local staff and expatriates from the parent company (Bartlett and Yoshihara, 1988; Furusawa, and Brewster, 2015; Kopp, 1994, 1999).

The fourth characteristic of the Japanese international management system is emphasis on long-term relationships with conventional partners and avoidance of making new relations with emergent organizations. Since the Japanese management system is constructed not only through internal efforts but also through long-term interactions with external suppliers and buyers (Abegglen and Stalk, 1985; Aoki and Lennerfors, 2013; Asanuma, 1989; Hong, Easterby-Smith, and Snell, 2006; Lincoln, Gerlach and Ahmadjian, 1996), the Japanese management style is most effective when that company works with conventional partners who understand it well (Collinson and Rugman, 2008). Thus, when Japanese companies apply their management style to overseas subsidiaries, they often bring conventional partner relationships into that country for smooth operations (Abo, 1994; Florida and Kenny, 1991).

2.2 Is the Japanese style effective in emerging markets?

Next, we would like to review the present-day conditions of Japanese businesses in emerging markets. An emerging market is generally defined as a country that has some characteristics of a developed market, but does not meet all of the standards found in a developed market. At present, emerging markets are considered one of the most important business areas for investment by MNCs from developed countries (Khanna & Palepu, 2013; London & Hart, 2004). The problems in emerging markets pose a number of challenges for companies seeking new investments. Emerging markets have some characteristics that differ from that of developed countries (Hoskinsson, Eden, Lau, & Wright, 2000; Peng, Wang, & Jiang, 2008; Wright et al, 2005; Young, Tsai, Wang, Liu, & Ahlstrom, 2014). Sheth (2011) pointed out the general characteristics of emerging markets such as underdevelopment of institutions and infrastructure, and market instability. Emerging markets usually have inadequate infrastructure, chronic shortage of resources, and unstable socio-political governance. These institutional features are significantly different from markets in developed countries. As a result, many emerging countries have institutional holes that require MNCs from developed countries to change their original business approaches (Khanna & Palepu, 2013).

In such environmental conditions, Japanese companies often find themselves incapable as their original management system struggles in these newer, untamed markets. While Japanese companies were the pioneers in leveraging advantages of emerging countries in manufacturing (Abo, 1994; Delios and Henisz, 2000), they have found poor market success in emerging countries (Gupta, Wakayama, and Rangan, 2012; Shintaku and Amano, 2009; Usui, 2015). Even the management of Toyota were of the view that it would be very difficult to replicate its original quality level and processes in India (James and Jones, 2014; Mathew and Jones, 2012). Past studies are divided in this matter: while some studies indicate that the method of transferring of Japanese way of management is faulty (Amano et al, 2015; Jones, Kanno, and Egawa, 2004; Shintaku and Amano, 2009; Wakayama, Shintaku and Amano, 2012), others disagree (Hayashi, 2012; Usui, 2015). In order to provide the general direction for that debate, we try to examine the matter through a more structured survey with a theoretical basis.

3. Theory and Hypothesis

3.1 Foreign subsidiary control theory and Japanese management

To investigate this issue, we apply the overseas subsidiary control theory (Birkinshaw and Morrison, 1995; Gupta and Govindarajan, 1991). It is a theoretical framework to deal with the nature of the relationship between the headquarters and its subsidiary in a foreign country, based on a more fundamental theory of management control (Chenhall, 2003; Galbraith, 1973). We think it would be useful because it can provide a suitable framework to capture how the characteristics of Japanese management style work in emerging markets: The Japanese management style is characterized by frequent interference by the headquarters (Bartlett and Ghoshal, 1999). This theoretical framework mainly deals with the management consequences of such an approach of the headquarters towards its subsidiary (Birkinshaw and Morrison, 1995; Gupta and Govindarajan, 1991; Nohria and Ghoshal, 1994; Roth and Morrison, 1992).

This theory deals with a scenario where a foreign subsidiary's operations are directed by the formal and social control mechanism of its headquarters, and influenced by external institutions (Anderson and Forsgren, 1996; Birkinshaw and Morrison, 1995; Nohria and Ghoshal, 1994; Gupta and Govindarajan, 1991). At first, we look into the formal control mechanism of the multinational corporation, by which the authority makes all the major decisions about the subsidiary's management (Birkinshaw and Morrison, 1995; Gates and Egelhoff, 1986; Roth and Morrison, 1992).

When the headquarters exert a strong decision-making authority, they can easily control the action of the subsidiaries in line with their intentions, while the subsidiaries lose the power to decide by themselves (Asakawa, 2001; Doz and Prahalad, 1984). In contrast, when the headquarters permit their subsidiary to decide freely, they lose control while that subsidiary can take actions freely as they want (Birkinshaw, 1997).

Based on the above discussion, we can say that the Japanese management style is characterized by a strong formal control (Bartlett and Ghoshal, 1989). In addition, it also indicates that such strong control mechanism would be associated with the adoption of the Japanese way-of-business. In fact, many studies regarding Japanese companies like Toyota and Panasonic have reported that these companies had tried to transfer the Japanese way-of-doing using a highly centralized decision-making system (Abo, 1994; Bartlett and Ghoshal, 1989; Fang et al, 2007).

H1: For Japanese MNCs, the parent company's formal control on subsidiary management is positively associated with the transfer of the parent company's way-of-business to the subsidiaries in emerging markets.

On the other hand, centralization by the parent company will impede initiatives of local subsidiaries (Birkinshaw, 1997; Mudambi, Mudambi, and Navarra 2007; Venaik, Midgley, and Devinney, 2005). When the local subsidiary has autonomy to decide, its managers are motivated to take free and flexible actions, to better respond to the local situation. On the contrary, when companies centralize decision-making, local subsidiary managers cannot act freely, and change is less likely to happen. As for Japanese companies, one of the chief objectives of centralized decision-making is smooth transfer of their way-of-business (Bartlett and Ghoshal, 1989; Kopp, 1999). Therefore, a change from headquarters' way of doing business and centralization would be viewed negatively by Japanese companies

H2: For Japanese MNCs, the parent company's formal control over subsidiary management is negatively associated with changes from the parent company's way-of-business in the subsidiaries in emerging markets.

The second lever is informal control that means social integration by the parent company's organizational culture. The parent companies can use it as a complemental tool to control the subsidiary's behaviour by promoting subsidiary behaviour that is in line with headquarters' intentions. It is not only because sharing the same culture fosters a sense of unity with its parent company, but it also works as the value and the norms that give a clear direction for doing things in that multinational company (Nohria and Ghoshal, 1994; Li, 2005; Tsai and Ghoshal, 1998; Vora, Kostova, and Roth, 2007).

As stated earlier, Japanese companies prefer to govern employees and subsidiaries using their vision or norms (Ouchi, 1981; Nonaka and Takeuchi, 1995). They emphasize on uniformity within the company, since it facilitates long-term commitment to the company (Abbegren and Stalk, 1985, Mito, 1991). Another reason for integration of organizational culture is to replicate the decision-making model of the centre: Japanese headquarters would like foreign subsidiaries to act like their headquarters do. If the subsidiary has the same value system as its headquarters, it will take decisions like the headquarters does (Nohria and Ghoshal, 1994; Li, 2005). Thus, integration of organizational culture would facilitate acceptance of the parent company's way-of-business by the overseas subsidiaries.

H3: For Japanese MNCs, social integration by the parent company's organizational culture is positively associated with the transfer of the parent company's way-of-business to the subsidiaries in emerging markets.

In contrast, if the parent company allows its subsidiary to possess a different culture, a new behavioural pattern or thought will emerge from it (Berry, 2005; Sirmon and Lane 2004; Van Maanen and Schein 1979). In international business settings, new organizational culture is often generated by the establishment of overseas subsidiaries, international joint ventures, cross-border acquisitions, and international alliances (Berry, 2005; Cox and Blake 1991; Cummings 2004; Johnson et al, 2006; Sarala and Vaara, 2010; Stahl et al, 2010; Trompenaas and Hampten-Turner 1997). Such new culture brings different values and norms to the personnel in that local subsidiary, and they start to behave in line with them. Hence, their actions may differ from the employees of the parent company. Therefore, we can develop a hypothesis as follows:

H4: For Japanese MNCs, social integration by the parent company is negatively associated with changes from the parent company's way-of-business in the subsidiaries in emerging markets.

The third control lever is in the hands of external institutions (DiMaggio and Powell, 1983. Pfeffher and Salancik, 2003). In designing the control mechanism of the organization, managers must consider the external forces that indirectly determine the actions of that organization. When the external actor possesses an important resource for the focal company, it can exert the power to influence that company's behaviour (Pfeffer and Salancik, 2003). In emerging markets, partnerships with local companies and institutions are important to develop business since they give MNCs distribution channels, authority and market information, and helps them to adapt to the local environment (Govindarajan and Trimble, 2013; Khanna and Palepu, 2013, Rivera-Santos and Ruffin 2010). It means the local partners grasp important resources for MNCs from developed countries. Thus, the more the local partnerships the MNCs create, the more the change in business style from the developed country to the local one. The tendency of Japanese companies to bring conventional Japanese relationships into overseas business (Abo, 1994) would be associated with stickiness to their original business style. As they enter into more and more relationships with local companies and institutions, it will gradually change their business style.

H5: For Japanese MNCs, partnerships with local companies and institutions are positively associated with changes of the subsidiaries way-of-business in emerging markets from the parent company.

3.2 Effect on performance

So far, we have developed the logical structure of the characteristics of Japanese management style using the subsidiary control theory. Then we need to proceed to the theoretical investigation of the structure's impact on subsidiary performance, to evaluate the Japanese management style in the setting of emerging markets.

The difficulties of functioning in emerging markets mainly lie in the environmental heterogeneity that MNCs from developed countries have not experienced in the past (Hoskinsson, et al, 2000; Peng, Wang, and Jiang, 2008; Wright et al, 2005; Young et al, 2014). Inadequate infrastructure, chronic shortage of resources, and unstable socio-political governance are the typical examples of the features of many emerging markets (Sheth, 2011). These are not found in developed markets. Thus, MNCs from developed countries are often required to take a novel business approach to respond to these institutional holes (Khanna and Palepu, 2013). In fact, past qualitative studies show that many Japanese companies, even Toyota or Panasonic, have found themselves incapable as their original management system struggled in these newer, untamed markets (Gupta, Wakayama and Rangan, 2012; James and Jones, 2014; Mathew and Jones, 2012; Shintaku and Amano, 2009).

Considering these heterogeneities, we can assume that the transfer of the traditional Japanese style of international management is generally not suitable for local conditions in emerging markets. In general, the business conditions of emerging markets are quite different from those of the Japanese market (Jones, Kannno, and Egawa, 2004; Shintaku and Amano, 2009; Usui, 2015). Furthermore, the culture, needs, and business practices are always shifting in emerging markets (Khanna and Palepu, 2013; London and Hart, 2004) unlike the stable and mature Japanese market. Thus, the original marketing approach specific to the Japanese market is unlikely to be suitable for emerging markets. Hence, we set the first hypothesis as follows:

H6: For Japanese MNCs, the transfer of the parent company's way-of-business to the subsidiary in emerging markets is negatively associated with its business performance.

While the transfer of Japanese style is considered not to contribute to capturing emerging markets, the departure from Japanese style might have a positive influence on market performance. Considering the varied and changing characteristics of emerging markets, Japanese MNCs have to continuously keep learning about the evolving market conditions. As such, to adapt to the local conditions, they should modify their marketing approach to reflect this learning (London and Hart, 2004; Prahalad, 2012; Washburn and Hunsaker, 2011). Thus, we can suggest that frequent modifications to the marketing approach within local subsidiaries are likely to yield good performance. Therefore, we can hypothesize the following:

H7: For Japanese MNCs, departure of the subsidiary in emerging market from the parent company's way-of-business is positively associated with its business performance.

Our overall hypothetical relationships are described in Figure 1. To summarize what this figure tells, we hypothesize that the transfer of the Japanese way-of-business characterized by strong management control by Japanese headquarters is detrimental to the business situation in emerging markets, while a departure from the Japanese way indicated by the weak control by the headquarters improves it.

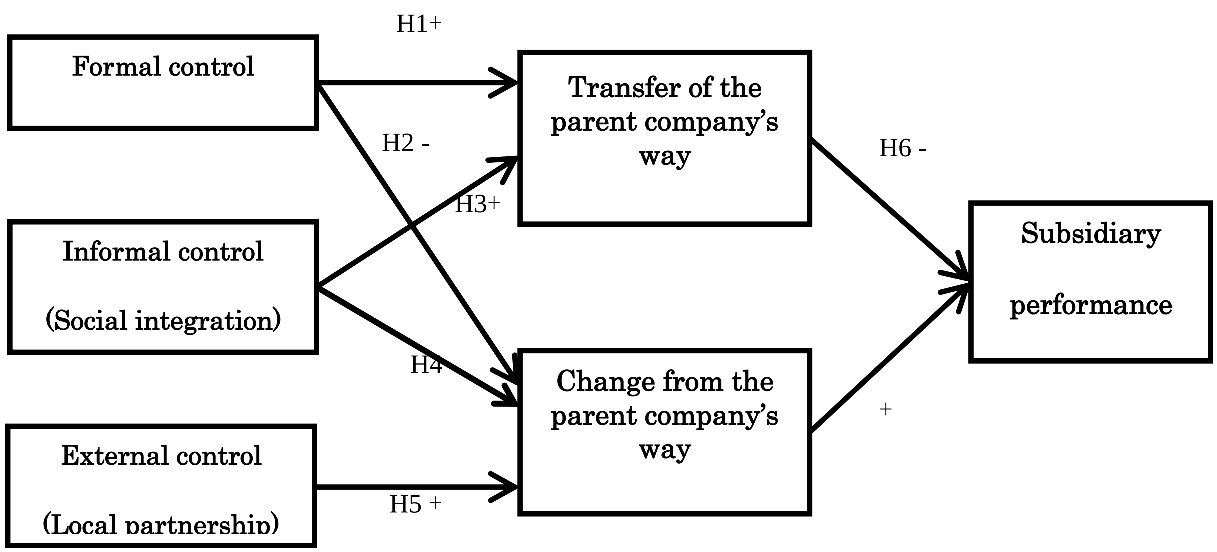

Figure 1 Hypothetical model of the study

4. Methodology

4.1 Sample and Procedures

We try to examine the whole hypothetical structure using path analysis. Our data were collected through a questionnaire survey mailed during August–October 2014. We chose Japanese overseas subsidiaries located in middle and low income countries (GDP per capita < $12,746, as defined by World Bank in 2014) throughout Asia, Latin America, and Africa as samples. Before distributing the surveys, we conducted a pilot study by interviewing subsidiary presidents or executives in 19 Japanese MNCs to confirm and grasp the phenomena of interest. A random sample of MNC subsidiaries was selected from the "Toyo Keizai Overseas Japanese company database 2014" (Toyo Keizai 2014), which is often used for surveys of Japanese companies (Delios and Henisz 2000; Nakamura, Shaver and Yeung 1996; Yiu and Makino 2002). To ensure sufficient variance, the sample included 6 industries (consumer goods, durable goods, parts, equipment, materials, and other) and 4 geographical areas (Southeast Asia and China, South Asia, Latin America, and Africa). We first extracted emerging market subsidiaries that sold products to the local market. Next, we developed a mailing list by total random sampling. We excluded subsidiaries that had been established for three years or less, since we cannot properly observe phenomena such as knowledge transfer or creativity if a subsidiary has been established only recently.

Questionnaires were mailed to 1017 subsidiaries of Japanese corporations in emerging markets. Cover letters and questionnaires were sent to the CEOs or other top-level representatives of the foreign subsidiaries. They had been written in both Japanese and English, and the cover letter provided general definitions of the key concepts of the study. Strict confidentiality was ensured to minimize the pressure to provide falsified answers. We think that these settings make respondents feel confident in providing answers about their true perceptions. We received responses from 175 (17.4%) companies, of which 173 (17.3%) were eligible for analysis. The net response rate of 17% is considered favourable compared to the average response rates (from 6% to 16%) for international surveys as analysed by Harzing (1997). Tables 1a and 1b summarize the sample.

Table 1a Overview of the sample (1)

Characteristic	Minimum	Maximum	Mean	S.D.
Focal Subsidiary side				
No. of employees	3	7800	553.30	959.45
Capital (Million US$)	5	404569	1953	53.71
Age (year)	3	79	19.90	14.70
Portion of Ownership (%)	9	100	79.57	29.50
Headquarters side				
Capital (Million US$)	3	5882	563.62	918.69
No. of foreign subsidiaries	1	182	33.79	29.19

N = 173.

Table 1b Overview of the sample (2)

Location	
	No. of samples
Country	
Malaysia	33
Thailand	23
Brazil	20
Indonesia	19
China	18
India	11
Vietnam	11
Philippines	10
Republic of South Africa	5
Colombia	5
Chile	4
Argentina	2
Pakistan	2
Bangladesh, Cambodia, Kenya, Morocco, Myanmar, Nigeria, Panama, Venezuela, Uganda, Zambia	1 each (10 total)
Industry	
B-to-C industry	59
Consumer goods, foods, and drinks	25
Durable consumer goods	34
B-to-B industry	100
Parts (auto, electric, and mechanical)	46
Materials (chemical and metal)	34
Plant and equipment	20
Other industry	14

N = 173.

We chose subsidiaries rather than the headquarters as respondents since the control mechanisms, cultural conditions, and external environments vary among subsidiaries within the same MNC. In addition, the subsidiary's cultural conditions can only be estimated from the perceptions of those within it. Thus, many studies focus on subsidiaries in the local country as respondents (Ambos, Andersson and Birkinshaw 2010; Gupta and Govindarajan 2000; Tsai and Ghoshal 1998; Zahra, Ireland, and Hitt, 2000).

Our focus is particularly on marketing and sales activities of the subsidiaries, so that we can examine the antecedents and consequences of transfer of or departure from Japanese headquarters' way-of-business. Although production and R&D are also important in emerging markets, market cultivation is a narrow but critical aspect of subsidiary operation and performance in emerging markets (Anderson and Markides 2012; Govindarajan and Trimble 2013; Khanna and Palepu 2013; Rivera-Santos and Ruffin 2010; Washburn and Hunsaker 2011). In addition, a subsidiary's marketing and sales strategies are embedded in both the local market context and the MNC's global strategic context. Thus, marketing in a foreign subsidiary is affected by both local market conditions and the headquarters' interference. Therefore, we can capture the effect of the degree of headquarters' control on the subsidiary's marketing and sales activities more clearly than the effect of the degree of control on manufacturing, R&D, and administrative activities.

4.2 Measures

Formal control: The measures of centralization were based on questions developed by Gupta and Govindarajan (2000), Nohria and Ghoshal (1994) and Roth and Morrison (1992). Each item has been modified to fit the context of sales and marketing. Formal control was measured using estimates from subsidiary managers about the extent of the headquarters' and/or subsidiary's influence on the areas covered by the following six questions: (i) introduction of a new product, (ii) changes in product design, (iii) changes in marketing strategy, (iv) approval of annual budgets, (v) hiring top management in the subsidiary, and (vi) changes in subsidiary organization. The relative influence was scored for each of question on a five-point scale representing: (1) headquarters decides alone; (2) headquarters decides with subsidiary's suggestions; (3) both headquarters and subsidiary have roughly equal influence over the decision; (4) subsidiary decides with headquarters' suggestions; and (5) subsidiary decides alone. The average score of all the answers is treated as an indicator of formal control.

Social integration: In the subsidiary management context, Tsai and Ghoshal (1998) and Li (2005) proposed a shared vision as one index for social integration by the headquarters. Building on previous literature (Li 2005; Tsai and Ghoshal 1998), a five-item construct was formulated to capture it. The items were: (i) "Your local company shares the same ambitions and vision as the parent corporation"; (ii) "Your local company shares a coherent organizational culture with the parent corporation"; (iii) "The headquarters has provided a fairly well-defined set of rules and policies about marketing activities"; (iv) "Employees in your local company use business practices similar to those of the parent corporation"; and (v) "Employees in your local company have shared understandings of doing business with the parent corporation." These items were assessed on a five-point Likert scale (1 = strongly disagree, 5 = strongly agree).

Local partnerships: We use the scale developed by Schmid and Schurig (2003) to measure the influence of external local partners. Respondents were asked to indicate on a five-point scale the extent to which their relationships with the following network partners influenced their marketing/sales activities: (i) specific customers; (ii) specific suppliers; (iii) specific distributors; (iv) specific competitors; (v) specific external R&D institutions; and (vi) specific government institutions. The average from these is treated as an indicator of external local partnerships.

Transfer of the parent way: Following past studies (Ambos and Schlegelmilch, 2007; Björkman, Barner-Rasmussen, and Li, 2004; Gupta and Govindarajan, 1994, 2000; Harzing, 1999), transfers of know-how or practices from headquarters were operationalized in terms of an average derived using a six-item scale that asked for the extent of knowledge transfers from headquarters to the focal subsidiary in the following areas: (i) market research data, (ii) product designs, (iii) marketing know-how, (iv) sales/distribution know-how, (v) purchasing know-how, and (vi) management systems and practices. To understand the extent of localization of all these items, respondents were asked to give responses to, "Wording of the items were adjusted to fit to our marketing-side context." Responses were scored on a five-point scale ranging from "not at all" to "a very great deal," and their average is shown as the total "transfer of original marketing approach."

Change from the parent way: For the degree of change in the marketing approach within a focal subsidiary, we use the same six items and the same scale as that of the transfer of marketing approach, to enable cross-comparisons. Subsidiary performance: This study uses a scale similar to that adopted by several past subsidiary studies to measure a subsidiary's operating performance (Ambos and Reitsperger, 2004; Ambos and Schlegelmilch, 2007; Foss and Pedersen, 2002).

We asked respondents to rate the subsidiary's management performance on three dimensions: (i) gross revenue, (ii) operating profit, and (iii) total evaluation of accounting target (1 = much below average, 3 = average, and 5 = much above average). Their average number is treated as a measure of subsidiary performance.

Control variables: For calculating the effect of transfer of the parent way and change from the parent way on subsidiary performance, we controlled the effect of subsidiary age, size, market turbulence and competitive intensity since the subsidiary's resource base and competitive environment are fundamental determinants of competitive advantage (Porter, 1980; Barney, 2001). We measured subsidiary size as the number of employees and age as the number of years since the subsidiary was established. A subjective question was drafted for the subsidiary president to gauge market turbulence and competitive intensity, with the responses on a five-point subjective scale ranging from "not at all" to "a very great deal."

In examining the impacts of formal control, social integration and local relationships, we controlled national cultural differences, since the outcome of the control levers would be somehow influenced by the national cultural differences. We calculated it using Hofstede, Hofstede and Minkov's (2010) six-dimension score.

		mean	s.d.	(1)		(2)		(3)		(4)	
(1)	*Subsidiary performance*	3.19	0.95								
(2)	*Transfer of the parent way*	2.17	0.69	.032							
(3)	*Change from the parent way*	2.79	0.72	.136	†	-.203	**				
(4)	*Formal control*	2.99	0.85	-.021		.418	**	-.423	**		
(5)	*Social integration*	2.14	0.75	.191	*	.382	**	-.066		.162	*
(6)	*Local partnership*	3.36	0.72	.116		.084		.331	**	-.082	
(7)	*Age*	20.08	14.42	-.083		-.014		.182	*	-.225	**
(8)	*Size*	561.34	939.88	.124		.135	†	.196	*	-.103	
(9)	*Competitive intensity*	4.30	0.76	-.046		-.019		.117		-.031	
(10)	*Market turbulence*	3.85	0.86	.020		-.035		.122		-.175	*
(11)	*Cultural difference*	87.45	10.31	.185	*	-.006		.001		-.078	

Table 2 reports the averages, standard deviations, and correlations for all variables. Each variable has sufficient variations and there is no serious collinearity among the independent variables.

Table 2 Descriptive statistics and correlations for all variables

		(5)		(6)		(7)		(8)		(9)		(10)	
(1)	*Subsidiary performance*												
(2)	*Transfer of the parent way*												
(3)	*Change from the parent way*												
(4)	*Formal control*												
(5)	*Social integration*												
(6)	*Local partnership*	.097											
(7)	*Age*	.087		.103									
(8)	*Size*	.267	**	.221	**	.379	**						
(9)	*Competitive intensity*	-.028		.153	*	-.050		.126					
(10)	*Market turbulence*	-.080		.216	**	-.109		.159	*	.430	**		
(11)	*Cultural difference*	.083		-.006		.074		-.030		.024		.149	†

** p<0.01, * p<0.05, †p<010
N = 173.

4.3 Measurement assessment

First, we did confirmatory factor analysis to assess the reliability and validity of our reflective measure. Its fit statistics are satisfactory ($\chi2$/d.f. = 1.57, CFI = 0.92, and RMSEA = 0.06). Then we checked values for composite reliabilities, average variance extracted, and Cronbach's alpha, for all reflective measures. The results are summarized in Table 3. All constructs exceed the recommended threshold value of 0.70 for composited reliability (Bagozzi and Yi, 1988; Nunnally, 1978) and 0.50 for average variance extracted (Bagozzi and Yi, 1988), and the scores for Cronbach's alpha are mostly sufficient. Hence we can conclude that all measures have good properties.

Table 3 Measurement results of all reflective measures

Construct	CR	AVE	Cronbach's alpha
Social integration	0.86	0.53	0.82
Transfer of the parent way	0.79	0.50	0.67
Change from the parent way	0.89	0.59	0.83
Subsidiary performance	0.94	0.85	0.90

n = 173.

Furthermore, some bias problems should be considered in the questionnaire survey. We examined three potential biases: common method bias, measurement equivalence, and non-response bias. First, to consider and avoid the risk of common method bias, we used the inverted scale for some measures and removed respondents whose answers have the same trend for both inverted and forward scales. Furthermore, we employ the single factor test suggested by Podsakoff et al (2003), which resulted in a $\chi2$ = 1357.37 with d.f. = 265 versus $\chi2$ = 400.24 with d.f. = 254 for the theoretically defined measurement model. Thus, the improvement is $\Delta\chi2(11)$ = 957.13, and it suggests that common method bias is not a critical problem.

Next, in terms of measurement equivalence, we have to consider that the same measures can apply to diverse respondents. First, we compared the means of our measures for Japanese respondents with those of other countries. We found no significant differences in these means. Second, we compared the differences in the means between high cultural distance countries and low cultural distance countries. We computed the cultural difference of Japan with each host country and ranked our respondents according to cultural distance. We classified them into a high distance group and a low distance group. We then compared the high and the low groups, and could not find any serious differences. Thus, scale equivalence problems in this data are unlikely to have biased our analyses. To check non-response bias, we checked the sample's representativeness by comparing the value of the descriptive statistics with those of non-respondents from the population (listed in Toyo Keizai (2014)), and found no significant differences between them.

5. Data Analysis

To test the hypothesized relationships, we conducted structural equation modelling using R ver. 3.2.4. The results are shown in Table 4 and Figure 2. The fit indices (CMIN/DF=1.382, CFI=0.937, RMSEA=0.047) suggest a good model fit between our model and data.

Table 4 Summary of the path analysis results

Hypothesized Model Paths	Standardized Coefficients (t-value)
H1: *Formal control → Transfer of the parent way*	0.37 (5.48) **
H2: *Formal control → Change from the parent way*	-0.38 (-5.18) **
H3: *Social integration → Transfer of the parent way*	0.32 (4.70) **
H4: *Social integration → Change from the parent way*	-0.13 (2.01) **
H5: *Local partnership → Change from the parent way*	0.29 (4.36) *
H6: *Transfer of the parent way → Subsidiary performance*	0.03 (0.35)
H7: *Change from the parent way → Subsidiary performance*	0.15 (2.03) *
Control Variables	
Cultural difference → Transfer of the parent way	0.01 (0.09)
Cultural difference → Change from the parent way	-0.03 (-0.42)
Age → Subsidiary performance	-0.20 (-2.42) **
Size → Subsidiary performance	0.18 (2.26) **
Market turbulence → Subsidiary performance	-0.01 (-0.05)
Competitive intensity → Subsidiary performance	-0.10 (-1.24)
Fit Indices	
$\chi2$ (d.f.)	55.28 (40)
Cmin/d.f.	1.382
Comparative Fit Index (CFI)	0.937
RMSEA	0.047

** p<0.01, * p<0.05

n = 173.

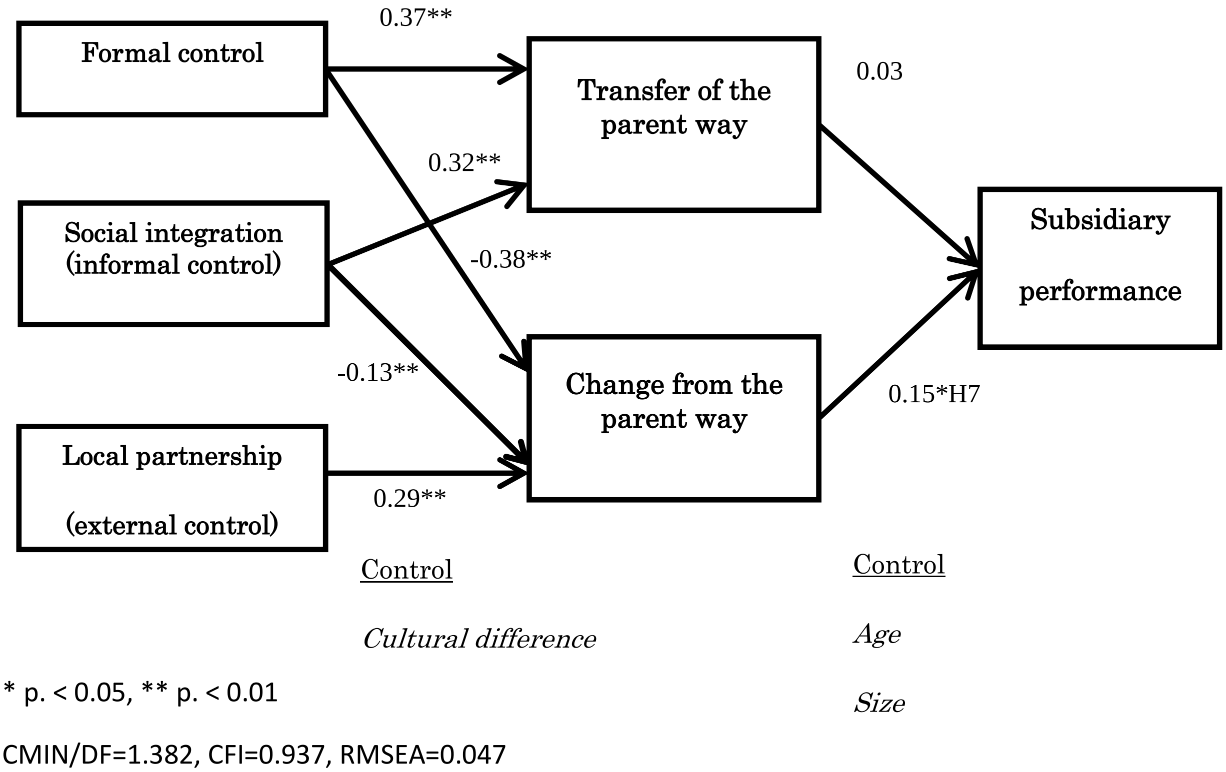

Figure 2 Graphical representation of the path analysis results

Thus, to sum up the findings from testing our hypotheses: formal control has a positive effect on transfer of the parent way (H1: b=0.37, p<0.01) and a negative effect on change from the parent way (H2: b=-0.38, p<0.01). Social integration has a positive effect on transfer of the parent way (H3: b=0.32, p<0.01) and a negative effect on change from the parent way (H4: b=-0.13, p<0.05). Further, local relationships have a significantly positive effect on change from the parent way (H5: b=0.29, p<0.01). Next, looking at the influence of business styles on the company performance, we find a significant positive relationship between change from the parent way and subsidiary performance (H7: b=0.15, p<0.05). However, transfer of the parent way does not have any significant effect on subsidiary performance (H6: b=0.03, not significant). Thus, H6 is not supported, while H7 is.

6. Discussion

From an empirical analysis, we could conclude that most of our hypothetical model was verified. While one relationship between transfer of the parent way and subsidiary performance was denied, most of the relations were significant with expected signs. That is, the results show us that Japanese companies should change their management style in emerging markets, and that change is facilitated by loosening headquarters' control and developing local autonomy and external partnerships.

Question arises as to why the transfer of parent-way did not show any significant signs. It neither improved nor impaired the general performance of the subsidiaries. This might mean that while the original Japanese approach in businesses is effective at times, at other times it is not. For example, in our pilot study, Yakult in Indonesia and Ajinomoto in Thailand have found market success by taking advantage of the traditional Japanese way, while Yakult in Vietnam and Ajinomoto in Taiwan could not capture market using similar marketing methods. Market success depends on each market's condition as well as the business approach itself.

Drawing on those findings, we think this study would contribute to academic studies in three ways. First, we can say that our study would contribute to the academy study of Japanese management, by increasing the understanding of its current situation while using the subsidiary control framework. In particular, we think our results indicate the limit of strongly controlled, conventional Japanese transfer-based way of international management.

Transfer of the Japanese way usually has positive effects on overseas operations in developed countries in the 20th century (Abo, 1994; Bartlett and Ghoshal, 1989, 1999). However, our empirical results show that a simple transfer of the Japanese way and a strongly centralized decision-making style would be inappropriate in today's emerging countries that have markedly different market conditions from developed countries. Based on the results, we can guess that Japanese management is not always applicable today, since the business situation in Japan and in other countries, especially in emerging markets, is considerably different. Along with some other studies that indicate the obsolescence of Japanese management (Buckley, 2009; Pudelko, 2009), this study adds new evidence from the emerging markets.

Our study contributes to theoretical structure by providing causal structure among subsidiary control, knowledge transfer, local adaptation and ultimate subsidiary performance. Our study sums up findings of the past study and develops a structural model regarding the above items and confirms its validity by providing one evidence from Japanese companies. That is, as past studies suggested (Abo, 1994; Asakawa, 2001; Birkinshaw, 1997; Björkman, Barner-Rasmussen and Li, 2004), the level of parent company's control over its subsidiary strongly relates to the possibility of the transfer of parent's way-of-business to that subsidiary and the departure from it. Then, depending on the fit between local business environment and the parent's way-of-business, sometimes transfer brings good managerial results and sometimes it does not (Ambos and Reitsperger, 2004; Bartlett and Ghoshal, 1989; Chang, 1995; Fang et al, 2007; Venaik, Midgley, and Devinney, 2005). Hence, if the parent company's business style does not sit well with the local situation, the parent should give a greater degree of autonomy to the subsidiary, and if it does, the autonomy of the subsidiary can be restricted. The desirable level of control is determined by the extent of the fit between the local environment and firm's way of doing business. Such a structural and contingent view considering the consequences of subsidiary control can be proposed from our analysis of Japanese companies.

Third, this study might also contribute to emerging market business studies (e.g., Hosskison et al 2000; Young et al, 2014). Although our study focuses only on Japanese companies, our fundamental conclusion might be applicable to companies in developed countries in general. Our conclusion that emerging market subsidiaries can get better market performance by changing conventional way-of-business is consistent with that of past qualitative studies like Govindarajan and Trimble (2013), Khanna and Palepu (2013) and Anderson and Markides (2012). Since the institutional settings of emerging markets are quite different from those of developed countries (Peng, Wang and Jiang, 2008; Young et al, 2014), companies from a developed country have to redesign their products and strategies in accordance with the focal emerging country. Our study examines it statistically with questionnaire survey data of Japanese companies. This would also be a contribution of the study. However, this study has some limitations. At first, we have to mention that our survey did not collect information about specific management ways like lifetime employment and multi-skilled labour, since we focused on the overall situation of transfer and change from Japanese styles. Had we dealt with some specific characters of Japanese management, we could have understood the effectiveness of those characters in emerging markets, but we could not get a grasp on the full situation of transfer of the Japanese way of management from the viewpoint of subsidiary control. Similarly, to capture the overall situation of Japanese companies in emerging markets, we sacrificed the differences among emerging markets. Thus, in future studies, we should investigate under what specific conditions Japanese traditional style is not accepted.

7. Conclusion

As a concluding remark, we would like to highlight a practical implication for Japanese companies. As we discussed above, transfer-based Japanese style of international management is not appropriate in emerging markets, and a departure from it has generally been seen to have a positive influence on sales performance in emerging markets. This might indicate that it is time to change. Inadequacy of the Japanese style of management is being heightened these days. To ride the big waves toward emerging markets, Japanese companies should consider whether their way-of- business is acceptable or not.

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