

HITOTSUBASHI UNIVERSITY

HEADQUARTERS-SUBSIDIARY PERCEPTION GAPS REGARDING  
SUBSIDIARY ROLES: THE IMPACT ON SUBSIDIARY PERFORMANCE AND  
EXPATRIATES' MODERATION ROLE

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## **ABSTRACT**

This research aims to examine, theoretically and empirically, the organisational factors of multinational corporations (MNCs) which influence foreign subsidiary performance. In this regard, I focus on the headquarters-subsidiary perception gaps regarding subsidiary role. I apply a mixed-method research approach, using qualitative case interviews which lead to a quantitative study, which concentrates on one company. This company is in the service sector and is also engaged in manufacturing. Its matrix business unit structure provides an opportunity for multiple case studies.

This study makes three theoretical contributions. First, it clarifies the direct relationship between headquarters-subsidiary perception gaps and subsidiary performance. I confirm that: 1) headquarters overestimation of subsidiary capability positively influences both the present and new business performance of a subsidiary; 2) subsidiary overestimation of subsidiary capability negatively influences the present business performance of a subsidiary; 3) subsidiary overestimation of the strategic importance of the local environment positively influences the new business performance of a subsidiary; and 4) there exists a positive moderation effect of expatriate coordination via host country national (HCN) managers on the relationship between

headquarters overestimation of subsidiary capability and subsidiary performance in present business. Second, this study develops a general framework which links headquarters-subsidary perception gaps to subsidiary performance. The model integrates several theoretical perspectives from the pertinent literature: perception gap directionality, subsidiary role, and existing/new business categorisation. Third, this study clarifies the importance of focusing on HCN managers when examining the perception gaps between headquarters and subsidiaries. In addition, this study has practical implications regarding the way in which MNC managers should prioritise the management of headquarters-subsidary perception gaps.

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# **1 INTRODUCTION**

## **1.1 Motivation and Background**

This research aims to examine, theoretically and empirically, the organisational factors of multinational corporations (MNCs) which influence foreign subsidiary performance, focusing on the headquarters-subsidiary perception gaps regarding subsidiary role. Several reasons are behind the choice of this research aim as follows.

As the definition of an MNC has shifted from hierarchically structured entities in which headquarters is positioned at the top to a network of geographically dispersed sets of value-adding activities, international business (IB) studies have gradually acknowledged the increasing importance of subsidiaries (Paterson & Brock, 2002). The headquarters-subsidiary relationship is not only one of the central study areas in the literature of MNCs (Birkinshaw & Hood, 1998), it is also a significant issue in practical terms (Doz & Prahalad, 1981, 1984). The increasing complexity of the international management of MNCs increases the difficulty of optimising the relationships between headquarters and subsidiaries, and achieving higher performance. The backdrops to this increasing complexity include the various dualities, such as pursuing the development of existing businesses and new businesses, and increased centralisation at headquarters, while at the same time empowering foreign subsidiaries (Birkinshaw & Pedersen, 2009).

These complexities have also increased the dimensions of subsidiary roles. If we assume an MNC is a network model, it could be defined as an open system of roles (Katz & Kahn, 1978) and a subsidiary could be interpreted as a role bearer. In this regard, subsidiary roles become varied and complex in the course of expanding MNC activities. Consequently, quite a number of subsidiary typologies have developed to simplify these roles. However, no typologies have so far met with unanimous approval, and the relationships among various subsidiary roles have not been clarified (Daniel, 2010).

The complexity of international management and the excessive variety of subsidiary roles make it increasingly difficult for foreign subsidiaries to fully understand, agree, and implement strategic directions from headquarters regarding subsidiaries and for headquarters managers to understand local situations. The perception gaps between headquarters and subsidiaries about subsidiary roles have thus become key strategic issues in the headquarters-subsidiary relationship because the strategy-formation process is fundamentally one of perception<sup>i</sup> (Minzberg, Ahlstrand, & Lampel 1998). Misperceiving each other often leads to unintended consequences or side effects (Jervis, 1976); however, we do not know if these unintended consequences or side effects bring positive or negative outcomes.

The term perception has been employed in a confusing variety of contexts. For example, it can be defined as 'a set of processes by which we recognize, organize, and make sense of the sensations we receive from environmental stimuli' (Sternberg, 2006:111).<sup>ii</sup> In IB studies,

perception gaps are generally defined as situations in which managers who are active in different organisational units hold different opinions or have different perceptions concerning a particular matter (Asakawa, 2001).

Since there is no easy way to determine the accuracy of perceptions (Jervis, 1976), perception gaps are inevitable. In headquarters-subsidary relationships, various factors such as the different experience at headquarters of subsidiary managers, the imperfect flow of information within MNCs, local stakeholders' requirements, and the decreasing dependence of subsidiaries on headquarters can lead to different perceptions of roles on both sides (Chini, Ambos, & Wehle, 2005; Ghoshal & Nohria, 1989). However, the perception gaps between headquarters and subsidiaries are still under-researched (Schmid & Daniel, 2011).

Most headquarters-subsidary perception gap studies have examined the direct outcomes from perception gaps. These are intermediate outputs which occur between perception gaps and subsidiary performance such as headquarters control over subsidiaries (Birkinshaw, Holm, Thilenius, & Arvidsson, 2000), knowledge flow between headquarters and subsidiaries (Arvidsson, 1999), tension between headquarters and subsidiaries (Asakawa, 2001), satisfaction levels (Chini et al., 2005), and conflict or coordination between headquarters and subsidiaries (Birkinshaw et al., 2000; Schmid & Daniel, 2007).

Regarding the form of perception gaps, three types of scenario can be envisaged. The first is subsidiary overestimation in which subsidiary managers place greater importance on the

subsidiary's role than headquarters managers. The second scenario is a small or non-existent perception gap in which subsidiary and headquarters management have the same perception of the subsidiary's role. The third scenario is headquarters overestimation in which subsidiary managers place less importance on the subsidiary's role than headquarters managers (Birkinshaw et al., 2000). Several perception gap studies have applied this perception gap directionality concept (Arvidsson, 1999; Daniel, 2010).

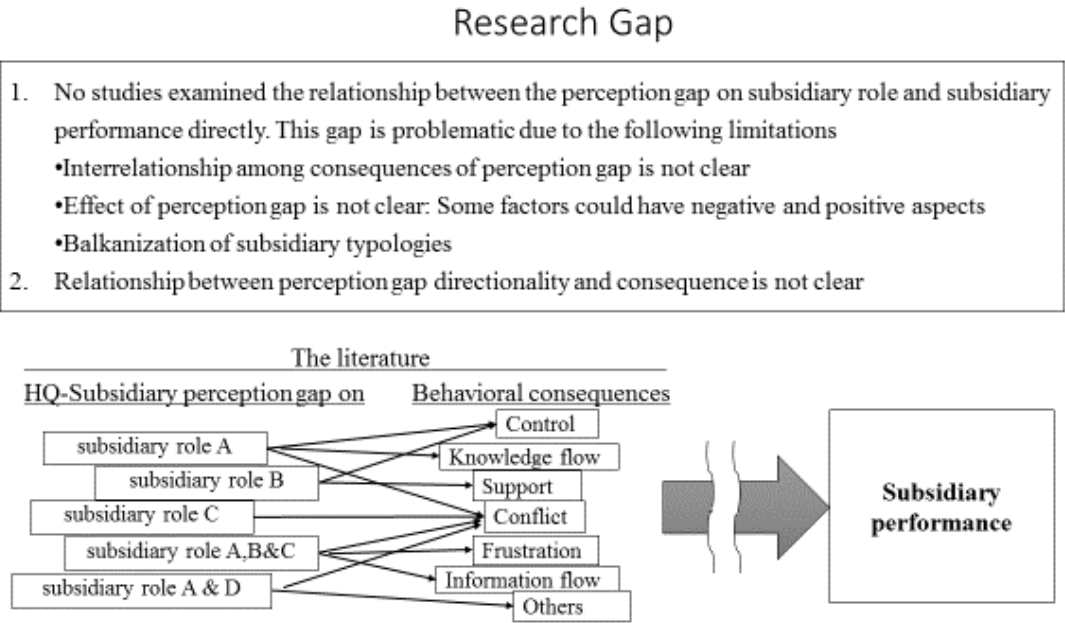
Almost all perception gap studies suggest the negative aspects of perception gaps; in particular, they emphasise the negative influence of subsidiary overestimation. These studies suggest that perception gaps negatively influence the management of the headquarters-subsidiary relationship, leading to dysfunctional tension in the MNC, inefficient knowledge flow, suboptimal decisions, idle resources, and dissatisfaction at headquarters and the subsidiary, which in turn leads to poor coordination between headquarters and the subsidiary (Birkinshaw et al., 2000; Denrell, Arvidsson, & Zander, 2004). However, few studies have confirmed quantitatively whether these outcomes have positive or negative influences. Although some literature has mentioned that positive impacts related to headquarters-subsidiary perception gaps are possible, they have not examined this issue further in their studies (Schmid & Daniel, 2007; Schotter & Beamish, 2011a).

Since one of the key objectives of MNCs is to improve performance, extensive literature investigates determinants of subsidiary performance (Andersson, Forsgren, & Holm, 2002;

Bartlett & Ghoshal, 1989; Dunning, 1979; Gao, Pan, Lu, & Tao, 2008; Nohria & Ghoshal, 1994; Oki, 2013; Ramsey & Bahia, 2013). However, no research directly examines the link between perception gaps and subsidiary performance.

The literature review in this current study has identified a research gap regarding the consequences of perception gaps and subsidiary performance, as described in Figure 1-1.

**Figure 1-1: Research gap regarding the consequences of perception gaps and subsidiary performance**



My direct practical experience also motivates this research. As a result of teaching and coordinating global executive training programs for various MNCs, I have faced numerous situations in which managers from headquarters and foreign subsidiaries did not share the same

understanding of corporate strategy and subsidiary roles. These roles include the positioning of the local market, subsidiary capabilities, corporate culture, and knowledge-sharing situations. Although most MNC managers agreed that headquarters-subsidiary perception gaps influence MNC performance, they seemed to have mixed views on the impact of these gaps. Some said that the perception gaps between headquarters and subsidiaries were responsible for inhibiting the optimisation of subsidiary performance while others said that this was not the case. Some managers even mentioned that perception gaps lead to positive subsidiary performance even though such gaps cause tension or tighter control. Thus, although most literature has emphasised the negative aspects of headquarters-subsidiary perception gaps, executives and managers mentioned not only the negative aspects but also the neutral or positive influences of perception gaps. An MNC manager in charge of several business units in a subsidiary said that there are 'good perception gaps and bad perception gaps'. Consequently, I noticed a paradox between what the literature said and what MNC managers said. A perception gap seems to be like a chameleon or kaleidoscope which has a multiple, changeable nature within one entity.

I also found that this perception gap paradox causes a problem among MNC management. Quite a number of MNC executives and managers are aware of the perception gaps between headquarters and subsidiaries. The gaps can be observed in many areas, but executives and managers do not know which of these are more problematic and which are less. Consequently, most MNC executives and managers cannot take effective measures to manage

the perception gaps. Indeed, without prioritisation or guidelines, any attempts to cope with these perception gap issues overwhelm MNC managers.

The executive programs which I have run involve participants from headquarters and subsidiaries. One such participant, a senior executive from an MNC's headquarters, said:

'When I visit foreign subsidiaries or receive reports from subsidiaries, I often notice that there may be perception gaps between us and the subsidiaries. I intuitively feel that some of these perception gaps may bring negative impacts and others could be utilised positively. However, since the perception gaps are elsewhere, we cannot deal with all of them properly. Therefore, we leave the issue without taking specific actions. Some of the perception gaps are quite fatal and cause a large negative impact on our performance. In one case, a perception gap led to the resignation of a key HCN [host country national] manager and a project was abandoned.'

Although the real business world is interested in the relationship between headquarters-subsidiary perception gaps and subsidiary performance, the consequences of perception gaps examined by the literature are intermediate outcomes. In addition, the balkanisation of subsidiary role definitions prohibits MNC managers from taking effective measures to manage the perception gaps regarding subsidiary roles. Thus, my motivation for this research comes from theoretical and practical perspectives.

## 1.2 Research Question and Overall Approach of this Study

In view of the aforementioned background, this study aims to achieve several objectives, which can be initially expressed as the following research question:

How do perception gaps between MNCs' headquarters and subsidiaries regarding subsidiary roles affect subsidiary performance?

The literature has examined the direct consequences of perception gaps. For example, 'what are the implications of perception gaps between headquarters and subsidiary managers concerning the subsidiary roles for the headquarters-subsidiary relationship?' (Daniel, 2010: 2). However, as illustrated in Figure 1-1, no studies have directly examined the relationship between perception gaps and subsidiary performance. Thus, because the focus of this study is the direct relationship between perception gaps and subsidiary performance, an area in which no preceding studies exist, the nature of this study is explorative.

Because of this explorative nature, the study has applied a mixed-method research approach initiated with qualitative case interviews, which led to a quantitative study leveraging a unique quasi-natural experiment by focusing on one company, namely the Toyota Tsusho Co., Ltd. (hereafter, TTC). Each MNC has its own strategy and international scope, and the performance of the subsidiary is influenced by both the former (Ginsberg & Venkartraman, 1985; Schendel & Hofer, 1979) and the latter (Bouquet & Birkinshaw, 2011). With a single company, research variances due to such corporate strategy and international scope can be



eliminated. Thus, instead of selecting multiple companies, I chose just one as the research site.

In order to focus on one company as a research site, this study needed several criteria to make it more generalisable. Thus, site selection criteria for the study were: 1) considerable business size; 2) high international exposure; 3) wide geographic coverage; and 4) wide coverage of the business domain in the company's portfolio. TTC fits these criteria well. It has: 1) sales of more than seven trillion yen (the tenth largest among Japanese listed companies); 2) the highest foreign sales ratio of any Japanese service company; 3) operations in more than 150 countries; and 4) various business fields with different industry dynamisms including auto, logistics, metal, energy, foods, and healthcare.

The research involved 134 interviews with TTC managers. The interviewees included senior executives, headquarters managers, and managers in six foreign core subsidiaries. I interviewed expatriates and host country national (HCN) managers to confirm whether they needed to be examined separately. Since TTC applies a matrix organisational structure according to business domain and regions, the interviews included seven business domains and six regions (Indonesia, Thailand, Singapore, China, the US, and Europe). Consequently, this matrix business structure enabled multiple case studies.

Eight hypotheses were developed based on a literature review and case study interviews. Six concern the ways in which perception gaps between headquarters and subsidiary HCN managers influence subsidiary business unit performance. Such performance was examined

separately as existing business performance and new business performance. Although the literature on perception gaps has generally suggested that perception gaps have negative effects on MNC and subsidiary activities, the case interviews provided several findings which contradicted these studies. The other two hypotheses concern the moderation effect of expatriate coordination via HCN managers on the headquarters-subsidiary relationship.

The eight hypotheses to be tested are as follows.

**Hypothesis 1a:** Subsidiary overestimation of the capability of HCN managers and staff negatively influences the existing business performance of foreign subsidiary business units.

**Hypothesis 1b:** Headquarters overestimation of the capability of HCN managers and staff positively influences the existing business performance of foreign subsidiary business units.

**Hypothesis 2a:** Subsidiary overestimation of the subsidiary capabilities of HCN managers and staff negatively influences the new business development performance of foreign subsidiary business units.

**Hypothesis 2b:** Headquarters overestimation of the subsidiary capabilities of HCN managers

and staff positively influences the new business development performance of foreign subsidiary business units.

**Hypothesis 3:** Subsidiary overestimation of the strategic importance of the local environment positively influences the existing business performance of foreign subsidiary business units.

**Hypothesis 4:** Subsidiary overestimation of the strategic importance of the local environment positively influences the new business development performance of foreign subsidiary business units.

**Hypothesis 5:** The greater the amount of expatriate coordination via HCN managers, the greater the positive influence of headquarters overestimation regarding subsidiary capabilities on the existing business performance of foreign subsidiary business units.

**Hypothesis 6:** The greater the amount of expatriate coordination via HCN managers, the less the positive influence of headquarters overestimation regarding subsidiary capabilities on the new business development performance of foreign subsidiary business units.

Next, managers at headquarters and eight foreign subsidiaries (expatriate and local

managers) of TTC completed Web-based questionnaire surveys for quantitative analysis from July 2014 to January 2015. The target regions were Indonesia, Thailand, Singapore, China, the US, the European Union, India, and Africa. The total number of questionnaires sent was 392 and the total number of responses was 259. One of the key features of this research design was to conduct interviews and questionnaires with headquarters managers, expatriate managers, and HCN managers who were in the same strategic business units in order to examine the perception gaps regarding subsidiary roles and the influence on performance of certain foreign business units. Thus, the unit of analysis is the subsidiary business unit. A set of headquarters managers, expatriate managers, and HCN managers constitute one sample. Further, although the total number of responses was 259, the total number of the sample was 49.

This type of survey was highly complex to design and execute. First, the set of reporting lines among headquarters, expatriates, and HCNs had to be identified. Usually, no central database follows this kind of relationship. Second, gathering questionnaires from such different layers of people is extremely difficult even when a company provides strong support. This may be one of the reasons why no studies with such a research design and research question existed before now in this area.

Of the eight hypotheses, five were supported through the quantitative survey.

### **1.3 Findings and Contributions of this Research**

This study offers theoretical and practical contributions. As explained above, there were several research gaps. These research gaps have had an impact on real business. In such a context, this study sheds new light on the relationship between headquarters-subsidary perception gaps and subsidiary performance.

The first contribution of this study is to clarify the relationship between headquarters-subsidary perception gaps and subsidiary performance; in other words, to establish how headquarters-subsidary perception gaps regarding subsidiary roles influence subsidiary business unit performance. The quantitative questionnaire confirmed that: 1) headquarters overestimation of subsidiary capability positively influences the present and new business performance of subsidiary business units; 2) subsidiary overestimation of subsidiary capability negatively influences the present business performance of subsidiary business units; and 3) subsidiary overestimation of the strategic importance of the local environment positively influences the new business performance of subsidiary business units.

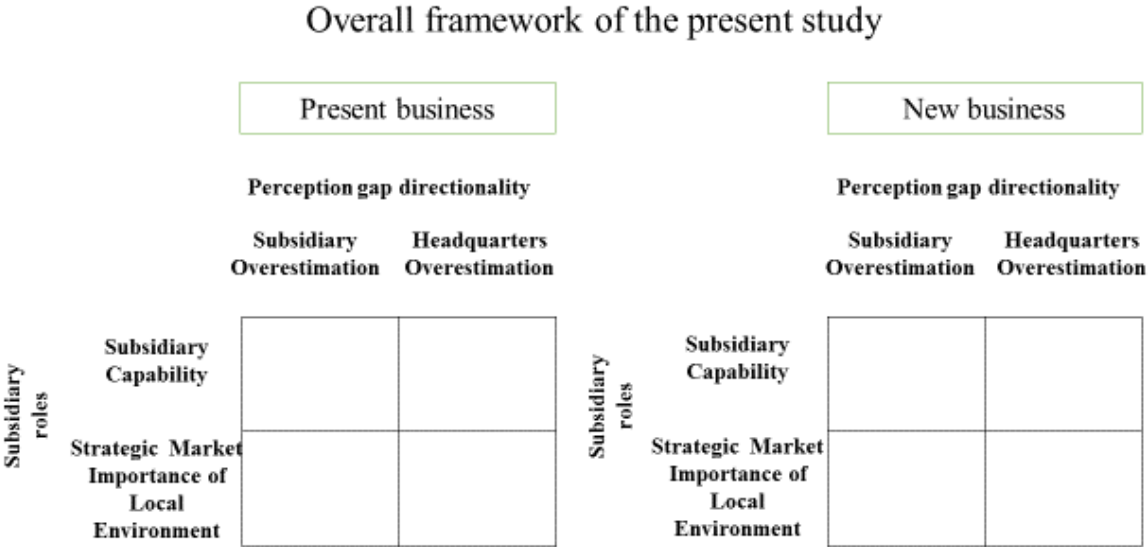
The second contribution of this study is the development of a general model which links headquarters-subsidary perception gaps to subsidiary business unit performance and integrates several theoretical perspectives of the pertinent literature. I developed a framework to categorise the perception gaps through two subsidiary roles, the strategic importance of the local environment and subsidiary capability, and two perception gap directionalities, subsidiary

role overestimation and headquarters role overestimation. I then integrated this categorisation with subsidiary performance, dividing this into existing business performance and new business performance.

This general headquarters-subsidary perception gap categorisation model was created through case interview findings. With the case interviews, I found that the consequences of perception gaps differ according to subsidiary role type and perception gap directionality. Of various subsidiary role typologies, TTC managers suggested two subsidiary roles, the strategic importance of the local environment and subsidiary capability, as key subsidiary roles. As stated above, I also found that the consequences of perception gaps differ according to perception gap directionality, I integrated the two subsidiary roles and the two types of perception gap directionality into a general model.

Case interviews also suggested the dynamism of how the perception gaps which influence subsidiary business unit performance differ between existing business and new business. Thus, I examined the subsidiary business unit performance of each perception gap category in this categorisation model according to existing business and new business respectively. The overall framework is illustrated in Figure 1-2 below.

**Figure 1-2: Overall framework of the study**



The third contribution of this study is the way it highlights the importance of focusing on HCN managers when examining the perception gaps between headquarters and subsidiaries, bearing in mind that most studies do not distinguish between expatriate and HCN managers within subsidiaries. Because expatriates are ambivalent and may adopt various positions between headquarters interests and local interests, it is sometimes misleading to judge the perception gaps between headquarters and subsidiaries by examining headquarters managers and expatriate managers.

The fourth contribution of this study is that it empirically demonstrates the moderation effect of expatriate coordination via HCN managers on the relationship between headquarters-subsidiary perception gaps and subsidiary performance. In the case interviews, I

uncovered the importance of the expatriates' coordination role on subsidiary performance. Although a large number of studies have considered foreign expatriates and several studies have investigated the relationship between the numbers or ratio of expatriates and subsidiary performance, almost no studies have examined the link between expatriate role and subsidiary performance. The literature also regarded HCN managers as unreliable in the coordination role. My quantitative survey confirmed that expatriate coordination via HCN managers has a positive moderation effect on the relationship between headquarters-subsidary perception gaps regarding subsidiary capability and the existing business performance of subsidiary business units. My findings on the moderation effect of expatriate coordination via HCN managers may be useful for future studies of HCN managers.

This study also has practical implications. First, it provides MNC managers with guidelines for the management of perception gaps and headquarters-subsidary relationships. Although headquarters-subsidary perception gaps are regarded as a critical issue for the headquarters-subsidary relationship, it is impossible for MNC managers to fill all the gaps. This study could help them to prioritise the issues. For example, headquarters managers could prioritise their support plans for foreign subsidiaries, enabling them to judge when to strengthen their control over subsidiaries and when not to. Further, this study could help HCN managers to design their communication strategies with headquarters.

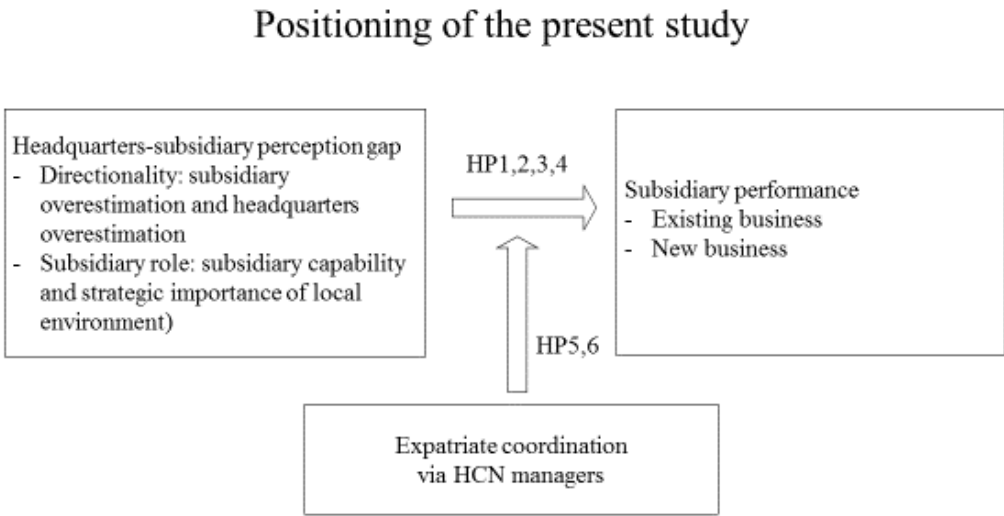
The second practical implication is that this study helps expatriate managers to



understand how they can selectively utilise HCN managers for coordination. This study suggests that expatriate managers should coordinate by themselves for new business but should utilise HCN managers for coordination in the event of headquarters overestimation.

Figure 1-3 below summarises the contribution of the present study by comparing the literature. This study re-categorises the independent variable, headquarters-subsidiary perception gaps with regard to subsidiary role. It also examines the dependent variables, subsidiary performance in existing business and new business, focusing not on behavioural outcomes but financial results or the business development type of performance. It then examines the relationship among the independent variable, perception gaps, and the dependent variables of subsidiary performance.

**Figure 1-3: Overall positioning of the study**



This study also adds a new concept: expatriate coordination, with a particular focus on coordination via HCN managers as moderators.

#### **1.4 Organisation of the Thesis**

So far, I have presented the research question, motivations, and overall approach of this study. The remainder of the study is organised as follows. Chapter 2 provides a review of the prior research on subsidiary roles, perception gaps between headquarters and subsidiaries, subsidiary performance, and expatriate coordination. It also describes the two research gaps.

Chapter 3 explains the overall research methodology. The phase I quantitative research is then explained and discussed in Chapters 4, 5, and 6. Chapter 4 describes the background information on TTC as a case study and explains the characteristics of the core subsidiaries and business domains. Chapter 5 discusses the key findings from the case interviews which form the base for theory building. Chapter 6 describes the theory development and considers the independent variables. In this regard, Chapter 6 is devoted to the development of the hypotheses and the frameworks for this study using the literature and case data.

Chapters 7 and 8 explain and discuss the phase II quantitative research. Chapter 7 describes the methodology of the hypotheses' testing through questionnaire surveys. Chapter 8 presents the empirical results of the data analysis.

Finally, Chapter 9 discusses the findings of the study, considers the potential theoretical

and practical implications of the empirical findings, and acknowledges the study's limitations.

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<sup>i</sup> Perception and cognition are difficult to distinguish and often used interchangeably in the literature. Perception is the process which occurs because of the presence of an object and which results in the immediate apprehension of the object by one or more of the senses. Temporally, it is closely connected with events in the immediate surroundings and (in general) linked with immediate behaviour. Cognition need not be linked with immediate behaviour and, therefore, need not be directly related to anything occurring in the proximate environment (Downs & Stea, 1973).

<sup>ii</sup> To some social psychologists, it implies both the recognition of social objects present in one's immediate sensory field and the impressions formed of persons or groups experienced at an earlier time (Downs & Stea, 1973).

## **2 LITERATURE REVIEW**

Because the central research question of this study is how headquarters-subsidary perception gaps regarding subsidiary roles influence subsidiary performance, subsidiary roles and headquarters-subsidary perception gaps are key constructs. Chapter 2 first reviews how the headquarters-subsidary relationship has evolved in the IB literature and where subsidiary roles are positioned in the headquarters-subsidary relationship. Then, this chapter reviews headquarters-subsidary perception gaps from various directions, including the influencers of perception gaps, the form of perception gaps, and the consequences of perception gaps. Several theoretical gaps are discussed at the end of the chapter.

### **2.1 MNC Theory and Subsidiary Roles**

#### ***2.1.1 MNC as a network approach and headquarters-subsidary relations***

How to structure and manage the relationship between headquarters and its foreign subsidiaries has been one of the key concerns of MNC studies; indeed, most studies on subsidiaries were originally a part of MNC management studies. The MNC is a governance system which performs a collection of value-adding activities under unified coordination and control, and in this regard MNC theory aims to explain the level and

pattern of the foreign value-adding activities of companies (Dunning, 1993). Such activities can be divided into the internationalisation of companies in the first instance, and the configuration of activities in already internationalised companies. With regard to the latter, many contributions to IB literature have viewed MNCs as intra-organisational networks.

Traditionally, MNCs were regarded as hierarchically structured entities in which headquarters were positioned at the top as distinctly superior to subsidiaries and a number of dependent and homogeneous subsidiaries were below (Paterson & Brock, 2002). Headquarters decided and controlled strategy; a structure was then adopted to match the strategy (Paterson & Brock, 2002). Since the adaptability of the MNCs' hierarchical approach was limited, a more flexible approach such as the headquarters-subsidiary relationship stream of research has emerged and shifted the focus of study to the subsidiary level of analysis (Birkinshaw & Pedersen, 2009). In this headquarters-subsidiary relationship stream of research, increased attention has been paid to the networks and strategies developed by subsidiaries independently of headquarters (Forsgren, Ulf, & Johanson, 1995). It was then realised that foreign subsidiaries could conduct activities which were more or less equally important as the activities conducted by headquarters (Birkinshaw & Hood, 1998). Further, it became clear that these

subsidiaries interact not only with headquarters but also with other subsidiaries and local business partners, which potentially leads to the diversity of subsidiaries within the same organisation (Paterson & Brock, 2002).

Even though this headquarters-subsidiary relationship stream of research took for granted that subsidiaries may possess a certain level of autonomy, the research was still dominated by the assumptions that subsidiaries are subordinate to headquarters, they interact primarily with headquarters, and their activities are confined mainly to sales and manufacturing (Birkinshaw & Pedersen, 2009; Paterson & Brock, 2002).

A more flexible network approach was then developed which regarded MNCs as geographically dispersed sets of value-adding activities, and that each activity was conducted by semi-autonomous subsidiaries. This network approach explicitly acknowledged the increasing importance of subsidiaries to MNCs and included Hedlund's heterarchy (Hedlund, 1986), Bartlett and Ghoshal's transnational companies (Bartlett & Ghoshal, 1987), and other network models. Within these network models, 'subsidiaries were no longer restricted to dyadic relationships with the company's headquarters but were rather seen as nodes in the larger network' (Birkinshaw, 2000: 6). The acknowledgement that subsidiaries could own some unique resources and be able to act autonomously implied the concept that each subsidiary could have different roles

within the MNC network (Bartlett & Ghoshal, 1986; Paterson & Brock, 2002). This network approach increased the importance of the headquarters-subsidary relationship.

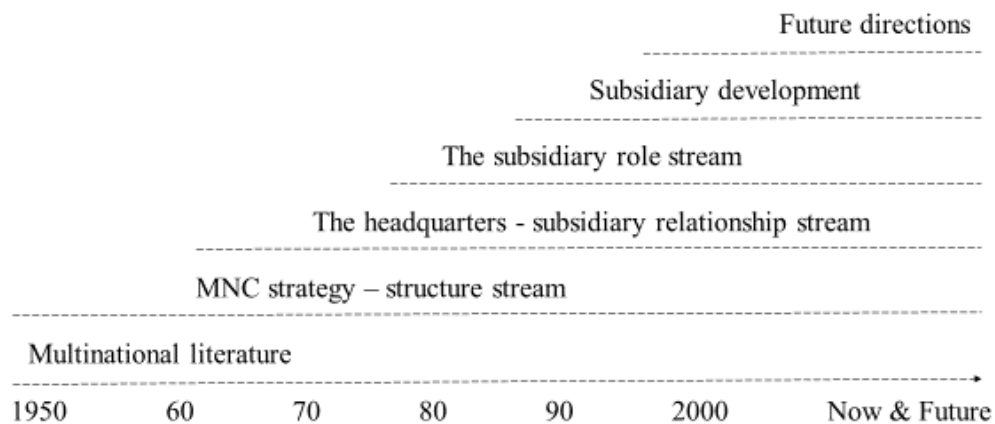
The MNC itself has been characterised as an inherently conflictual entity (Bartlett & Ghoshal, 1989; Doz & Prahalad, 1991; Pahl & Roth, 1993) because headquarters-subsidary relationships have various sources of conflict<sup>1</sup> such as heterogeneity of culture (Ayoko, Hartel, & Callan, 2002; Tjosvold, 1999) and stakeholder interest (Zietsma & Winn, 2008). Cognitive diversity has also had an impact on the emergence of decision conflict between managers at the parent and subsidiary level (Gupta & Gao, 2005). Since organisational conflicts are so common, Pondy (1992) even stated that conflict is a normal consequence of managing and that companies should internalise conflict rather than attempt to eliminate it.

Studies on how to evaluate and manage these conflicts between headquarters and subsidiaries within MNCs are limited (Rossing, 2005; Schotter & Beamish, 2011b). Research has not clarified how inter-organisational conflict in MNCs evolves comprehensively (Dörrenbächer & Gammelgaard, 2011) and few studies have examined conflict management from the headquarters and subsidiary points of view (Schotter & Beamish, 2011b). In addition, the mechanism and relationship between headquarters-subsidary perception gaps and headquarters-subsidary conflict has not

been widely studied (Daniel, 2010).

Headquarters-subsidiary studies in the MNC literature have developed gradually over the past few decades to the extent that several headquarters-subsidiary models are now available, as summarised in Figure 2-1. In particular, the fact that subsidiaries have unique resources and are able to act with considerable autonomy has implied that it could be necessary to allocate them different roles within the greater organisation (Bartlett & Ghoshal, 1986).

**Figure 2-1: Development of the literature on MNCs**



Source: slightly modified from Paterson and Brock (2002)



The shift in emphasis toward regarding an MNC subsidiary as a unit of analysis and to some extent viewing headquarters as an external factor has enabled authors to take a detailed look at the various strategic roles of subsidiaries (Paterson & Brock, 2002). Consequently, the literature has considered differences in roles within a single country (Jarillo & Martiane, 1990; Taggart, 1997b) and accepted the validity of regarding a strategic business unit within a subsidiary as a unit of analysis.

The research stream focusing on subsidiary roles has generated various subsidiary role typologies. Among the major subsidiary role categories are world product mandates (Paterson & Brock, 2002) and centres of excellence (Kutschker, Schurig, & Schmid, 2002). The key role of foreign subsidiaries in world product mandates is to develop a certain product in the international market (Crookell, 1987; Feinberg, 2000). However, centre of excellence defines the role of a subsidiary as utilising its resources by integrating its advantages into the MNC network (Andersson & Forsgren, 2000). According to Adenfelt and Lagestrom (2008), such a definition of a centre of excellence often includes three dimensions: 1) the subsidiary's development of specific knowledge; 2) the usefulness of such knowledge to other MNC units; and 3) the ability and willingness of the subsidiary to share this knowledge with other units.

This study uses this network model as a foundation because of its ability to deal

with complex, large MNCs where multinationality is already a given (Birkinshaw, 2000). This study's emphasis is on the two characteristics of this networking approach. One is the observation of the increasing variety of subsidiary roles, which include market access, production, research and development, and new business development. This variety of subsidiary roles increases the complexity of recognising greater autonomy for subsidiaries (Forsgren et al., 1995). As complexity rises, headquarters finds it difficult to control subsidiaries by using only traditional institutional means such as order and rewards; thus, MNCs use more informal systems such as sharing corporate culture and values in order to exercise control (Baliga & Jaeger, 1984; Prahalad & Doz, 1981). The other observation is that the flow of information within MNCs is imperfect because knowledge does not flow easily among locations owing to its stickiness (von Hippel, 1994). Consequently, subsidiary operations are differentiated by different local situations, including market needs, which do not disseminate to headquarters perfectly; as such, these operations are often integrated into the corporate network imperfectly (Schotter & Beamish, 2011a).

### ***2.1.2 The network approach and subsidiary roles***

The shift of focus of IB studies from headquarters and the control relationship between

headquarters and subsidiaries to the subsidiaries as units of analysis has enhanced research on subsidiaries to such an extent that it has become one of the key IB research areas (Paterson & Brock, 2002). The network MNC is considered a social organisation which can be defined as an open system of roles (Katz & Kahn, 1978), and the MNC's subsidiaries are interpreted as role bearers. Kahn and Quinn defined roles as patterns of behaviour which are expected in relation to a social position (Kahn & Quinn, 1970). Further, subsidiaries are now regarded as important nodes within the MNC's intra-organisational network (Birkinshaw & Hood, 1998).

Three different perspectives apply to what determines the subsidiary's role in IB literature: head office assignment, subsidiary choice, and local environment determinism (Birkinshaw & Hood, 1998). Head office assignment assumes that the role of the subsidiary is defined by head office managers and is controlled through a variety of formal and informal mechanisms (Bartlett & Ghoshal, 1989; Prahalad & Doz, 1981). One example of head office assignment is the implementation of MNC rationalisation, whereby some production plants are closed and reallocated to other subsidiaries (Dörrenbächer & Gammelgaard, 2011). While headquarters managers are the most prominent members of the subsidiary's role set, subsidiary roles are usually neither explicitly defined nor clearly communicated (Dörrenbächer & Geppert, 2006; Hood &

Taggart, 1999). Thus, since headquarters managers often express their expectations indirectly in interactions with subsidiary managers, it is quite likely that subsidiary managers may not recognise the expectations sent from headquarters or may misinterpret them. In addition, since the information flow in MNCs is far from perfect, certain signals sent from one side may not reach the receiver, as intended by the sender (Birkinshaw et al., 2000; Chini et al., 2005).

Subsidiary choice assumes that the subsidiary has a sufficient degree of freedom to enable it to define its own role (Birkinshaw, 1997). In this regard, subsidiary managers' point of view may differ to that of headquarters managers because of biases, different expectations, specific motives, and ambitions (Birkinshaw et al., 2000; Chini et al., 2005). Morgan and Kristensen (2006) indicated that subsidiaries can either behave as 'boy scouts' or 'subversive strategists' in order to draw on a certain repertoire for strategic action. While 'boy scout' type subsidiaries follow the demands of headquarters without resistance, 'subversive strategist' type subsidiaries constantly search for an extension or renewal of their own charter, and headquarters' goals, strategies, and rules are viewed as secondary (Dörrenbächer & Gammelgaard, 2011). The source of motivation for such subsidiaries is the establishment of external roles, especially with regard to the local environment.

Local environment determinism assumes that the subsidiary's role is strongly influenced by the specific characteristics of the host country (Ghoshal & Nohria, 1989). External stakeholders may have completely different expectations of the subsidiary's role to those of headquarters and the subsidiary's managers (Johanson, Pahlberg, & Thilenius, 1996; Miles & Perrault, 1980). Subsidiaries are often under significant pressure regarding local responsiveness from local partners in host countries, while headquarters managers in many cases expect subsidiaries to be positioned within the context of a global network (Doz & Prahalad, 1984; Prahalad & Doz, 1987).

While the three perspectives described here may determine the actual subsidiary roles, it is rare for headquarters managers and subsidiary managers to discuss the definition of subsidiary roles. Moreover, it is unsurprising if these two groups of managers have different views about subsidiary roles when head office managers think that such roles are part of a global optimisation strategy which involves limited knowledge about the local environment, and subsidiary managers think that local stakeholders influence subsidiary roles (Yamin & Sinkovics, 2007). If there is no coordination mechanism, the multiple forces which determine subsidiary roles lead to perception gaps regarding the definition of these roles.

Subsidiary roles are not static but rather dynamic and could evolve over time

(Birkinshaw, 1996). Subsidiaries can develop new capabilities to gain greater autonomy and responsibilities (Ferdows, 1989, 1997). In addition, subsidiaries' capabilities sometimes deteriorate and cannot meet the market's requirements; consequently, the responsibility of the subsidiaries is reduced (Galunic & Eisenhardt, 1996).

A subsidiary sometimes undertakes multiple roles, in different proportions and in a certain order of importance, although it is generally assumed that subsidiaries undertake one specific role (Schmid, 2004; Tavares & Young, 2006). This multiple role possession by a subsidiary may be because it is quite common nowadays for a subsidiary to have several distinct business units and products. Consequently, a subsidiary may have clear traits regarding one role in certain business units but different traits in others (Tavares & Young, 2006). Although subsidiaries undertake such multiple roles, empirical research seems to confirm that a subsidiary can be associated with one predominant overall role within the MNC (e.g. Birkinshaw & Morrison, 1995; Furu, 2001; Gupta & Govindarajan, 1994; Harzing & Noorderhaven, 2006; Jarillo & Martianez, 1990). The predominant labelling of an overall subsidiary role may cause a perception gap between headquarters and subsidiary managers, especially when a subsidiary has several business units.

This brief overview illustrates that the network MNC model has brought flexibility and complexity to MNCs simultaneously. The concept of subsidiary roles

within a network MNC is complex and multifaceted. Further, the nature of subsidiary roles may change because of external and internal reasons. Thus, it is not easy for an MNC to manage its organisation in a consistent manner.

### ***2.1.3 Subsidiary role typologies***

In order to simplify subsidiary roles, researchers have tried to categorise them, typically by selecting a few dimensions which they consider central to the roles (e.g. Jarillo & Martiane, 1990; White & Poynter, 1984). However, different authors regard different dimensions as relevant to the subsidiary role typology, which has consequently resulted in a range of such typologies (e.g. Birkinshaw & Morrison, 1995; Furu, 2001, Gupta & Govindarajan, 2000; Harzing & Noorderhaven, 2006; Jarillo & Martiane, 1990). Table 2-1 summarises subsidiary role typologies published after 1990 which have attracted some acceptance in the IB literature.

These typologies contribute to the IB literature by broadening the perspectives about subsidiaries. First, the typologies have to some extent reduced the complexity of MNC reality into a manageable number of related characteristics (Harzing & Noorderhaven, 2006) and made it relatively easier to understand and explain the MNC's function. Second, subsidiary strategic roles provide some guidelines for managing

headquarters-subsidary relationships and corporate governance mechanisms (Kim, Prescott, & Kim, 2005).

However, these typologies have some limitations. One is that 'authors, in general, do not ground their typologies of subsidiary roles in (organisational) theory' (Daniel, 2010: 19). Further, the selected dimensions seem rather arbitrary.

A second limitation is that the empirical base of most of the research depends on only one side of the actor, and in many cases on subsidiaries. Thus, views on the dimensions and categorisations of subsidiary roles could be one-sided and potentially fail to reflect the view from the other side when extracting subsidiary role dimensions. This one-sidedness also encourages us to study subsidiary roles from both headquarters and subsidiary perspectives in order to examine whether there are perception gaps between headquarters and subsidiaries.

Finally, a great deal of research has attempted to clarify the central dimension of subsidiary roles, but no typology has met with unanimous approval to date. The relationship among the various roles has not been clearly arranged or prioritised. Ironically, subsidiary typologies, which were made to simplify the complex headquarters-subsidary relationship, enhance the confusion because of their extensive variety and absence of clear mapping.



**Table 2-1: Comparison of subsidiary role typologies**

Author/Authors Year	Emperical base		Geographic scope of the emperical study	Dimensions	Roles
	heqquarters	subsidiaries			
Jarillo & Martinez 1990	No	Structured interviews to 50 subsidiaries(One of the top 3 managers )	Subsidiaries from Spain (HQ in North Amrica, Japan, and Europe)	Degree of localisation, Degree of integration	Autonomous Subsidiaries Receptive subsidiaries Active Subsidiaries
Hoffman 1994	No	Empirical(secondary) cases only for illustrative purpose 8 subsidiaries(Not clearly specified)	Subsidiaries from countries all over the world(HQ in the US., Europe, and Japan)	MNC Strategy, Subsidiary Capabilities, Local Environment of the Subsidiary	Partner Contributor Specialist Independent Satellite Implementer Interdependent Isolate
Taggart 1997b I	No	Questionnaire 171 subsidiaries (Chief executives)	Subsidiaries from the UK (localisation of HQ not indicated)	Degree of Local Responsiveness, Degree of Integration	Autonomous Subsidiary Receptive Subsidiary Constrained Independent Quiescent Subsidiary
Taggart 1997a II	No	Questionnaire 171 subsidiaries (Chief executives)	Subsidiaries from the UK (localisation of HQ not indicated)	Autonomy, Procedural Justice	Vassal Subsidiary Militant Subsidiary Collaborator Subsidiary Partner Subsidiary
Taggart 1998 III	No	Questionnaire 171 subsidiaries (Chief executives of subsidiaries))	Subsidiaries from the UK (localisation of HQ not indicated)	Coordination of Activities, Configuration of Activities	Autarhic Subsidiary Detached Subsidiary Confederate Subsidiary Strategic Auxiliary
Gupta & Govindarajan 1991, 1994	No	Questionnaire 359 subsidiaries of 79 parent companies (president of subsidiaries)	localisation of subsidiaries not indicated (HQ in the US, Japan, and Europe)	Outflow of Knowledge, Inflow of Knowledge	Local Innovator Global Innovator Implemeter Integrated Player
Birkinshaw & Morrison 1995	No	Questionnaire 115 subsidiaries (preesident and managing deirector of subsidiaries)	Subsidiaries from the US., Canada, UK, Germany, France, and Japan (localisation of HQ not included)	Market Scope, Product Scope, Value Added Scope	Local Implementer Specialised Contributor World Mandate
Nobel & Birkinshaw 198	??	Questionnaire 110 subsidiaries of 15 parent companies (senior managers of subsidiaries)	Subsidiaries from Sweden, and outside of Sweden (HQ in Sweden)	Nature of Activities, Goergraohic Scope, Linkages to other Entitles	Local Adaptor International Adaptor International Creator
Surlemont 1998	No	Questionnaire Number of subsidiaries not indicated	Subsidiaries from Belgium (HQ worldwide)	Domain of Influence, Scope of Influence	Dormant Centre Administrative Centre Strategic Centre of Excellence Global Headquarters
Randoy & Li 1998	No	Questionnaire Aggregated data from 25 industries	Direct investments in the US., from all over the world.	Outflow of Resources, Inflow of Resources	Resource Independent Resource Provider Resource User Resource Network
Benito, Groggaard, & Narula 2003	No	Questionnaires 728 subsidiaries(Executive officers or top level managers of subsidiaries)	Subsidiaries from Denmark, Finland, Norway (HQ worldwide)	Scope of Activities, Level of Competecee	Miniature Replica Single -Activities Multi- Activity Unit Highly Specialised Unit Strategic Centre
Daub 2009; Schmid & Daub 2005	No	Case studies 4 Subsidiaries	Subsidiaries from Eatern Europe (HQ from Germany)	Network Integration, Strategic Relevance	Service Factory International Competence Centre Support Centre specialised Contributor
Tavaras & Young 2006	No	Questionnaire 233 subsidiaries (managers or Top managers of subsidiaries)	Subsidiaries from Ireland, Portugal, Spain, and UK (HQ from Japan and EU)	Market Scope, Product Scope, Value Added scope,	Miniature Replica Rationalised Manufacturer personalised Mandate
Vereecke, Ann, Van Dierdonck, Roland, & De Meyer 2006	Case Studies 8 films with 4-10 manufacturing plants (General managers of headquarters)	Case Studies 8 films with 4-10 manufacturing plants (manufacturing managers of subsidiaries)	Spread of subsidiaries: pan-European or global (HQ in Europe)	Communication Centrality, Innovation Indegree, Innovation Outdegree, People Indegree, People Outdegree	Isolated Receiver Hosting Network Player Active Network Player

Source: extension of Daniel (2010: 16-19)

## **2.2 Perception Gaps in the MNC Context**

The prior section reviewed subsidiary role typologies, which are one key construct of this study's research question. The section discussed the situation whereby subsidiary role typologies aim to reduce the complexity of network MNCs, but various subsidiary role dimensions increase confusion because the numerous subsidiary role typologies are uncoordinated. This confusion caused by the various subsidiary role typologies aggravates headquarters-subsidiary perception gaps. Perception gaps, which are also a key construct of this study's research question, are now discussed in this section.

### ***2.2.1 Perception gaps between headquarters and subsidiaries***

There are two different ways to understand perception. One is to focus on the process of perception or perceiving (Higgins & Bargh, 1987; Malim, 1994) and the other is to focus on the result of perceiving or on what is perceived. Based on the former definition, perception can be defined as 'a set of processes by which we recognize, organize, and make sense of the sensations we receive from environmental stimuli' (Sternberg, 2006: 111). The latter definition describes perceptions as the 'outcome of individuals' information processing or a consequence of individuals' selective attention, selective comprehension, and judgment' (Waller, Conte, Gibson, & Carpenter, 2001: 586). Since

the focus of this study is the perception that MNC managers have regarding subsidiary roles, the latter definition is applied.

It is generally accepted that perception does not objectively reflect reality (McClelland, 2004) but to some extent is always subject to interpretation. Variation among individuals' perception is influenced in the first instance by subjective factors such as expectations, personal experience, knowledge, personality characteristics, situational motives, or general values (Mezias & Starbuck, 2003; Zimbardo, 1995). Environmental factors such as corporate or industry characteristics, information availability, or culture also influence variation in individuals' perception (Sutcliffe & Huber, 1998). If any variables are considered to be measurable objectively, and a manager recognises the variables in a different way from the objectively measured descriptions, this situation is defined as perception error (Doty, Bhattacharya, Wheatley, & Sutcliffe, 2006).

Perception gaps are generally defined as situations in which managers who are active in different organisational units hold different opinions or have different perceptions concerning a particular matter (Asakawa, 1996). In line with Chini et al. (2005), I define perception gaps as the difference in perception between headquarters and subsidiaries concerning subsidiary roles.

The emergence of perception gaps between headquarters and subsidiaries has an

important bearing on research practice as well as on managerial issues (Chini et al., 2005). The perception gaps between headquarters and subsidiaries have been studied with regard to various issues which include subsidiary capabilities (Arvidsson, 1999; Denrell et al., 2004); subsidiary autonomy (Asakawa, 2001; Chini et al., 2005); information sharing between headquarters and subsidiaries (Asakawa, 2001; Chini et al., 2005); subsidiaries' business networks (Holm, Johanson, & Thilenius, 1995); the marketing process of subsidiaries (Chan & Holbert, 2001); the autonomy granted to subsidiary-based purchasing managers (Toyne, 1978); and the strategic importance of the local environment (Birkinshaw et al., 2000). In their perception gap studies, most of this literature has examined these subsidiary roles individually; thus, we do not know whether headquarters-subsidiary perception gaps regarding these subsidiary role dimensions relate to each other. The headquarters-subsidiary perception gap study by Daniel (2010), which included role dimensions, capabilities, the importance of the local market, and knowledge flow in subsidiary roles, is an exception.

Through a review of 110 articles on subsidiary capability and knowledge, Arvidsson (1999) found that the majority of the articles (65%) implicitly or explicitly acknowledged that potential managerial differences regarding evaluations of capability may exist. Arvidsson also found perception gaps between headquarters managers and

subsidiary managers regarding the marketing capability of local managers. Some other studies found that a larger portion of subsidiary managers feel that their R&D capability is not recognised properly (Holm & Pedersen, 2000). While it is empirically proven that group members constantly rate their group higher than other groups (Ferguson & Kelley, 1964), it is possible that headquarters and subsidiary managers overestimate the capability of subsidiaries compared to others. Some studies mentioned that the assessment of one's own capability and performance depends on culture. Americans tend to have a self-serving bias, which is a tendency to take credit for success and blame others for failure, while the Japanese tend to have a self-effacing bias, which is a tendency to externalise the reasons for success (others' skills or luck) and internalise the reasons for failure (one's own inability) (Bailey, Chen, & Dou, 1997).

People have an imperfect understanding of how much control they can exert. When control is at a low level, they tend to overestimate, but when it is high, they tend to underestimate (Rosenzweig, 2014). If we apply this principle to headquarters, headquarters managers could both overestimate and underestimate their control over subsidiaries. If we apply it to subsidiaries, subsidiary managers could both overestimate and underestimate their autonomy.

The internal structures of subsidiaries should also be discussed when we examine

headquarters-subsidary perception gaps. Although it is said that expatriate managers often face 'dual organisational identification (DOI)' (Vora, Kostova, & Roth, 2007: 328), and HCN managers do not entirely share the same view about subsidiary roles, most of these studies have not distinguished between expatriate and HCN managers.

Sometimes, perception gaps are cumulative. Once a headquarters manager develops a certain image of a subsidiary, it is likely that the manager will disregard information which does not fit his or her preconceived notion or 'imprinted image' of the subsidiary because individuals tend to categorise in order to filter and prioritise information (Walsh, 1995).

I have confirmed the key characteristics of perception gaps in this section. What causes perception gaps and what form perception gaps take is reviewed in the next section.

### ***2.2.2 Influencers of perception gaps***

Various factors lead to headquarters-subsidary perception gaps. Such perception gaps regarding subsidiary roles are likely to emerge because of: 1) different experiences of headquarters and subsidiary managers concerning the level of information provided and how the managers interpret the information; 2) the imperfect flow of information and

knowledge in the MNC; and 3) the subsidiary's decreasing dependence on headquarters (Birkinshaw et al., 2000). The knowledge and experiences of corporate managers, communication frequency with headquarters, perceived market importance, and profitability also influence perception gaps (Denrell et al., 2004).

Various studies have pointed out that knowledge and information flow are key influencers of headquarters-subsidary perception gaps. The cost of knowledge transfer, including transmission and absorption costs, is considerable when the content is complex and the recipients do not have the capabilities to absorb it (Teece, 1977). Further, IB studies have found that the knowledge in MNCs can appear somewhat sticky (Jensen & Szulanski, 2004), tacit (Marshall, Nguyen, & Bryant, 2005; Nonaka & Takeuchi, 1995), ambiguous (Simonin, 1999), and socially embedded in the home country environment (Lam, 1997).

It is also understood that learning happens at various levels including individual, (von Krogh, Nonaka, & Ichijo, 1997), group (Wenger, 1998), and organisational (Inkpen & Dinur, 1998). Such multilayer knowledge transfer increases the possibility of perception gaps.

A mismatch of knowledge flow occurs because the receiving units do not appreciate the knowledge. For example, if the knowledge is not applicable to the

receiving unit environment, the target unit may not use the received knowledge (Delios & Beamish, 2001; Minbaeva, Pedersen, Björkman, Fey, & Park, 2003). If the knowledge is considered a valuable resource, each unit may reluctantly share it (Davenport, De Long, & Beers, 1998) and aim to receive at least the same amount of knowledge which it provides to other units (Schulz 2001, 2003), unless incentives to encourage information sharing are provided by the organisation (Zhao & Luo, 2005). This runs the risk that headquarters-subsidary perception gaps could be amplified continuously.

### ***2.2.3 Forms of perception gap: directionality of perception gaps***

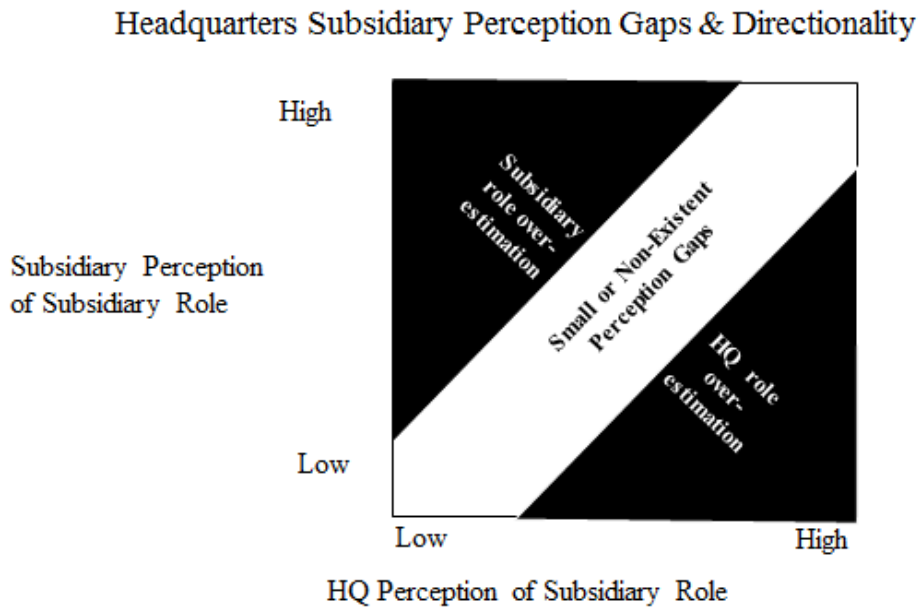
Perception gaps between self-assessment and assessment by others can be distinguished by directionality. Arvidsson (1999) classified perception gaps in subsidiary capabilities as 'positive' and 'negative'. If subsidiary managers think that the subsidiary is highly capable while corporate managers do not, this situation is regarded as a so-called positive perception gap. Alternatively, if corporate managers consider the subsidiary to be highly capable while subsidiary managers do not, then this situation is considered a negative perception gap.

Because this 'positive' and 'negative' concept was considered ambiguous, Birkinshaw et al. (2000) applied the directionality framework to the perception of



subsidiary roles and categorised the perception gaps as 'subsidiary role overestimation' and 'headquarters role overestimation'. The scenario can be envisaged as depicted in Figure 2-2. In this: 1) subsidiary overestimation occurs when subsidiary managers perceive their MNC role as more strategic than headquarters management perceive it; 2) a small or non-existent perception gap occurs when subsidiary and headquarters management have the same perception of the subsidiary's role; and 3) headquarters overestimation occurs when subsidiary managers see their role as less strategic than headquarters management see it (Birkinshaw et al., 2000). Thus, in Figure 2-2, if headquarters rates subsidiary capability highly while the subsidiary rates its capability middling or low, this situation is called headquarters overestimation. If headquarters rates subsidiary capability low or middling when the subsidiary rates it highly, this situation is called subsidiary overestimation. This directionality concept does not assume some absolute standard whereby overestimation or underestimation can be judged objectively; instead, it illustrates the relative difference between the two parties.

**Figure 2-2: Directionality of perception gaps**



Asakawa (2001) applied this directionality concept to mutual evaluation between headquarters and subsidiary managers. Asakawa (2001) described a situation in which both sets of managers rate the other more negatively than they rate themselves as 'tense'; and when they both rate the other more positively than themselves, the situation is 'relaxed'. However, because authors use different definitions and wording for the directionality concept, it is sometimes confusing to compare the literature. 'Positive' and 'negative' perception gap directionality in Arvidsson (1999) is 'subsidiary overestimation' and 'headquarters overestimation' in Birkinshaw et al. (2000). Nonetheless, in their quantitative analysis, Birkinshaw et al. (2000) called the situation

in which the subsidiary rates its role higher than headquarters' perception as 'positive subsidiary role overestimation', and the situation in which the subsidiary rates its role lower than headquarters' perception as 'negative subsidiary role overestimation'.

The literature has thus confirmed a connection between perception gaps and directionality (Asakawa, 2001; Birkinshaw et al., 2000; Chini et al., 2005; Daniel, 2010); however, the consequences of directionality have not been clearly confirmed. The ways in which the literature has dealt with the consequences of headquarters-subsidiary perception gaps are discussed in the next section.

### **2.3 Consequences of Perception Gaps on Subsidiary Roles**

#### ***2.3.1 Direct consequences of perception gaps***

There are various prior empirical investigations about headquarters-subsidiary perception gaps (see Table 2-2); however, not all of them have studied the consequences of perception gaps (e.g. Denrell et al., 2004; Holm et al., 1995), and those which have examined the consequences of perception gaps on subsidiary roles are limited. Overall, the literature found that such gaps may have a certain influence on headquarters-subsidiary relations; however, the consequences are not entirely clear.

Headquarters-subsidiary perception gaps can be observed in various subsidiary

roles. These include the strategic importance of the local environment, subsidiary capability, information flow, and subsidiary autonomy. Headquarters-subsidary perception gaps regarding the strategic importance of the local environment negatively influence headquarters-subsidary relationships. Birkinshaw et al. (2000) confirmed the relationship among perception gaps, headquarters control, and headquarters-subsidary cooperation quantitatively and concluded that a headquarters-subsidary perception gap regarding the strategic importance of the local environment can lead to a vicious cycle because the perception gap can cause tighter headquarters control of the subsidiary, which in turn leads to poor headquarters-subsidary cooperation. Such a cooperation problem then results in a continuous increase of the perception gap. Thus, perception gaps involve unnecessary friction, suboptimal decisions, and disillusion at the subsidiary level. In this regard, Birkinshaw et al. (2000) emphasised the negative influence of subsidiary overestimation but were not clear about the outcomes of headquarters overestimation.

The literature on perception gaps regarding other subsidiary roles such as information flow and subsidiary autonomy has also suggested the negative influence of headquarters-subsidary perception gaps. Asakawa (2001) studied the R&D laboratories of Japanese MNCs and found that headquarters-subsidary perception gaps cause tension, which leads to dissatisfaction. Further, headquarters-subsidary perception gaps are more

salient regarding information sharing than autonomy-control issues, and in this context the local side is more dissatisfied by the perception gaps.

Chini et al., (2005) studied perception gaps regarding subsidiary autonomy and information flow and connected these gaps with the internationalisation style of MNCs. They found that perception gaps have a negative effect on managers' satisfaction and consequently pose a threat to company operations. Further, the ways in which perception gaps appear differ according to the type of international strategy adopted by MNCs. For example, greater headquarters-subsidary perception gaps regarding information flow from headquarters to subsidiaries and subsidiary autonomy were observed in companies pursuing standardisation strategies; greater perception gaps regarding information flow from subsidiaries to headquarters were observed in companies pursuing multinational (local adaptation) strategies; and greater headquarters-subsidary perception gaps regarding information flow from subsidiaries to headquarters and subsidiary autonomy were observed in companies pursuing transnational (both standardisation and local adaptation) strategies. As a consequence, tension and dissatisfaction due to perception gaps were observed in all types of MNC (Chini et al., 2005).

Most analysis has concluded that the effect of headquarters-subsidary perception

gaps on subsidiary roles is detrimental. Arvidsson (1999) studied perception gaps between sales and marketing subsidiary managers and headquarters managers, with a focus on subsidiary capability. The author suggested that perception gaps regarding subsidiary capability leads to friction between headquarters and subsidiaries, which lowers the effectiveness of the knowledge transfer process within MNCs and indeed causes unsuccessful knowledge transfer (Arvidsson, 1999). When subsidiary managers overestimate their capabilities, they may have so-called 'not-invented-here-syndrome' (Katz & Allen, 1982). In this instance, subsidiary managers are not willing to learn from others because of high self-esteem. Conversely, when subsidiary managers underestimate their capabilities, they are not willing to share their experiences because of poor self-esteem (Arvidsson, 1999). In both situations, the knowledge transfer process is likely to be problematic and possibly unsuccessful. A danger also exists that any intended 'transfer of best practice' will turn out to be a 'transfer of worst practice' (Arvidsson, 1999).

Schmid and Daniel (2011) applied role theory (Katz & Kahn, 1978) and found that conflict is an outcome of headquarters-subsidiary perception gaps regarding subsidiary capabilities. Further, Daniel (2010) concluded that perception gaps concerning the subsidiary's current role always lead to headquarters-subsidiary conflict with one

exception.

Schmid and Daniel (2011) categorised conflict in three ways: distribution, process, and goal conflict. With the first of these, distribution conflict, it is assumed that differing perceptions of the subsidiary's position in capability terms may be associated with differing expectations concerning the distribution of resources. The distribution of headquarters resources, in other words, requires headquarters support (Schmid & Daniel, 2011).

'Subsidiary managers who perceive their subsidiary as more capable than headquarters managers may feel deprived of due recognition from headquarters' side in the form of various type of resources that would allow utilizing the subsidiary's capabilities to their full extent. In the reverse situation, however, when headquarters managers regard a subsidiary as more capable than subsidiary managers, subsidiary managers will not expect to obtain more resources from headquarters than they receive' (Schmid & Daniel, 2007: 270).

Thus, distribution conflict is more likely when there is subsidiary overestimation regarding subsidiary capability and less likely when there is headquarters overestimation.

With regard to process conflict, Young and Tavares (2004) found that subsidiary capability influences the level of subsidiary autonomy. It is generally understood that

headquarters managers who perceive a subsidiary as insufficiently capable are likely to interfere with the subsidiary's process (Tasoluk, Yaprak, & Calantone, 2006). Moreover, when subsidiary managers rate their capability higher than the perception of headquarters, they will resist headquarters' interference or become frustrated. Subsidiary capabilities can be observed in various functional areas such as R&D, production, marketing, purchasing, and logistics (Porter, 1986); thus, functional conflict can be observed in different functional areas. In sum, headquarters managers will be less inclined to intervene in subsidiary processes when they overestimate subsidiary capability (Schmid & Daniel, 2007).

With regard to goal conflict, although headquarters believes that certain goals are realistic based on their perceptions of subsidiary capability (Delios & Beamish, 2001), subsidiary managers also have their own ideas of fair goals based on their perceptions of subsidiary capability. When subsidiary managers regard their capability as greater than the perception of headquarters managers, subsidiary managers may consider the goals set by headquarters as easy to reach (Luo, 2003). It is also possible that subsidiary managers who have a high regard for their capability may pursue their own goals which do not necessarily fully align with those of headquarters. On the other hand, headquarters managers may assign higher goals when they overestimate subsidiary capability.



Subsidiary managers who do not regard their capability as highly as headquarters managers will judge the goals set by headquarters managers as too ambitious. Thus, goal conflict may occur with regard to both subsidiary overestimation and headquarters overestimation of subsidiary capability.

While most authors have emphasised the dysfunctional consequences of headquarters-subsidary conflict (Johanson et al., 1996; Roth & Nigh, 1992), they have not confirmed the impacts quantitatively. For example, the literature regarding the perception gaps of subsidiary capability has only suggested positive or negative influences and has not confirmed these outcomes quantitatively.

Indeed, several studies have implied the positive aspects of perception gaps. For example, if a company is on the wrong path, disagreement on the direction may reveal why a problem exists and may indicate the way in which the company could go instead (Arvidsson, 1999). Further, perception gaps could be beneficial, or may even be a prerequisite, for the exploratory type of organisational learning (Arvidsson, 1999); in other words, such gaps may sow the seeds of new understandings (Birkinshaw et al., 2000). However, no studies have clarified the conditions during which the positive aspect of perception gaps can be observed, or examined the positive influence quantitatively. Table 2-2 provides a comparison of headquarters-subsidary perception gap studies. I will

expand on this issue in the section in which I discuss research gaps.

**Table 2-2: Comparison of headquarters-subsidary perception gap studies**

Authors	Empirical base	Scope of the issues	Unit of analysis	Main findings & consequences of perception gaps
Arvidsson (1999)	Questionnaire: 154 headquarters-subsidary pairs & Interviews: 63 headquarters and subsidiary managers (8 MNCs from Sweden and USA)	Subsidary capability	Subsidary	Existence of perception gaps on subsidiary capability. Perception gaps limits the effectiveness of information flow
Birkinshaw et al. (2000)	Questionnaire: 89 divisional headquarters-subsidary pairs (19 MNCs from Sweden)	Subsidary role (Strategic importance of local environment)	Division	Subsidary overestimation leads to stronger control which leads to lower level of headquarters-subsidary cooperation
Asakawa (2001)	Questionnaire 53 headquarters-subsidary pairs. 10 MNCs from Japan	Subsidary autonomy, information flow	R&D unit	Perception gaps are more salient in information flow than in headquarters control issues. Perception gaps leads to tension which leads to dissatisfaction especially for local managers
Denrell, Arvidsson, & Zander (2004)	Questionnaire: 171 headquarters-subsidary pairs and Interviews: 41 headquarters-subsidary managers pairs (6 MNCs from Sweden and USA)	Subsidary capability	Subsidary	Perception gaps are larger in subsidiaries which are younger and in less important market
Chini, Ambos, & Wehle (2005)	Questionnaire : 79 headquarters-subsidary pairs(1 MNC from Europe)	Subsidary autonomy, information flow	Subsidary	Certain strategic environments bear a higher risk for perception gaps concerning headquarters-subsidary information flows and subsidiary capabilities. These perception gaps lead to dissatisfaction of managers
Daniel (2010)	Questionnaire: 33 headquarters-subsidary managers pairs (2 MNCs from Europe)	Subsidary role (Strategic importance of local environment, subsidiary capability, information flow, subsidiary autonomy)	Subsidary	Subsidary role related perception gaps lead to: 1) tighter control by headquarters; 2) headquarters-subsidary conflicts
Schmid & Daniel (2011)	Interviews: headquarters-subsidary (1 MNC from Europe)	Subsidary capability	Subsidary	Perception gaps lead to three types of headquarters-subsidary conflicts

### ***2.3.2 Subsidiary performance as a consequence of perception gaps***

Chini et al. (2005) pointed out that identifying perception gaps could be the most critical headquarters coordination task in order to improve and sustain overall MNC performance.

The unit of analysis for subsidiary performance could be the subsidiary, a division, or sometimes the region. Moreover, subsidiary performance can be measured in various

ways. Quantitative measures of subsidiary performance include: traditional financial measures (such as sales and profit); value-based financial measures (economic value added (EVA), cash flow return on investment (CFROI)); non-financial internal measures (productivity); and non-financial external measures (such as market share). Qualitative measures of subsidiary performance include internal measures, such as employee satisfaction, and external measures, such as customer satisfaction. Oki (2013) categorised subsidiary performance into financial performance, market performance, organisational performance, and position in a global context. The related financial data includes sales (Foley, Ngo, & Loi 2012; Kwon, 2010; Wilkinson, Brouthers, Salazar, & McNally, 2009); assets (Anderson et al., 2002); various types of profit (Anderson et al., 2002; Colakoglu & Caligiuri, 2008; Dikova, 2009; Foley et al., 2012); and sales per employee (Gaur, Delios, & Singh, 2007). These performance measures are summarised in Table 2-3; however, existing perception gap literature has studied none of the performance factors mentioned here.

Because headquarters-subsidary perception gaps possibly influence subsidiary performance both negatively and positively in various ways, and the complexity of MNC activities escalates the possibility of perception gaps, the importance of a study on headquarters-subsidary perception gaps is increasing.

**Table 2-3: Subsidiary performance measures**

Subsidiary performance measures
A) Financial base 1) Sales 2) Profit 3) ROI/ROA
B) Operational performance 1) Market share 2) Product/service quality 3) Productivity/HMR development
C) Overall effectiveness of performance 1) Performance relative to competitors 2) Reputation 3) Perceived overall preference

Source: Ramsey & Bahia (2013)

Notes: ROI is return on investment; ROA is return on assets; HRM is human resource management.

## **2.4 Filling the Research Gaps**

Although earlier studies on subsidiary roles and perception gaps have provided important empirical insights, there are some gaps regarding their theoretical and methodological scopes. As a result, my understanding and conceptualisation of perception gaps regarding subsidiary roles is to some extent incomplete. In the following section, I highlight the research gaps in order to provide a guide for theory development.

### ***2.4.1 First research gap: not examining directly the relationship between perception gaps and subsidiary performance***

The key research gap is that the literature has not examined the relationship between headquarters-subsidary perception gaps and subsidiary performance with regard to areas

such as sales, profit, and business development. This research gap is significant theoretically because optimising subsidiary performance is one of the key research areas in IB (Oki, 2013) and is problematic for MNC managers. Because of limitations in the literature, it is not clear which types of perception gap influence subsidiary performance or what kind of impact subsidiary performance experiences as a result of perception gaps. One of the central missions of scholars in the management area is to apply studies and knowledge to the practice of management (Simon, 1967). Further, how to achieve high subsidiary performance is one of the foremost MNC priorities. The research gap cited above makes it difficult for MNC managers to apply perception gap studies to their business.

Another limitation of the literature is that it has mainly examined intermediate outcomes between perception gaps and subsidiary performance and has also not examined these outcomes comprehensively, although subsidiary performance is influenced by various factors. As aforementioned, the literature has examined the behavioural consequences of perception gaps, which include knowledge flow, headquarters control, subsidiary autonomy, tension, managers' satisfaction, and other various conflicts (e.g. Arvidsson, 1999; Asakawa, 2001; Birkinshaw et al., 2000; Chini et al., 2005; Daniel, 2010). Since there is a considerable overlap between the determinants

of subsidiary performance (see Table 2-4) and the outcomes of perception gaps, as highlighted by the literature, we could assume that perception gaps may influence subsidiary performance. However, each of these perception gap studies examined limited types of consequence.

**Table 2-4: Comparison of determinants for subsidiary performance**

Determinants of subsidiary performance	A) mother company factors profile 1) nationality 2) Scale 3) numbers of subsidiaries 4) productivity 5) profitability mother companies management 1) knowledge transfer (HRM, philosophy) 2) Autonomy 3) expats 4) Nationality of local top manager 5) share holding ratio	Okii, K. (2013) "What is strong foreign subsidiaries?" MMRC Discussion paper No 437
	B) Subsidiary factors profile 1) Scale 2) Role 3) technology intensity 4) Advertising intensity 5) Entry mode, share holding ratio by mother firm 6) age of est. 7) age of internationalisation 8) Diversification level 9) Similarity of business to mother company	
	C) Whole company factors profile 1) experience of international business (expose, specific country, specific entry mode), 2) foreign sales ratio, Whole company factors management 1) subsidiaries relationship management including HQ (internal competition, external competition management, intre-organisational coordination) 2) corporate wide organisational design and HR system (Global HR management, penetration of corporate philosophy)	
	D) local environmental factors 1) market 2) competition 3) Institutional environment 4) living cost 5) education level 6) insitutional distance 7) cultural distance 8) supplier level 9) Economic situation (GDP etc)	
	E) industry factors 1) SIC category 2) manufacturing or service 3) Role as production or sales	
	Entrepreneurship associated with subsidiary initiatives	Birkinshaw et al., 2005
	Parent firms' enytry -specific experience, exporting experience, subsidiary experience	Gao et al., 2008
	Increase in both the internal cpmpatibility of their networks and their external compativility with other network	Bartlett, & Ghoshal, 1989
	Differentiate the structure of headquarter-subsidiary relations to fit to the context of subsidiary	Nohria, & Ghosha, 1994
	Building shared values across headquarters and subsidiaries	Nohria, & Ghoshal, 1994
	Possession of firm-specific advantage through knowledge transfer	Caves, 1996; Dunning, 1994
	Headquarter- subsidiary collaboration	Birkinshaw et al., 2000
	Relational embeddedness (technical and business) in external networks of local environment	Ulf et al., 2002

Notes: GDP is gross domestic product; SIC is standard industrial classification.

Further, some of these perception gap consequences have dual natures, and we do not know how the consequences influence subsidiary performance. For example, subsidiary autonomy and headquarters control have specific advantages, as summarised

in Table 2-5. Another example is conflict. Several studies have pointed out that headquarters-subsidary perception gaps lead to conflict between headquarters and subsidiaries, and have regarded such conflict as a negative factor; however, some studies have suggested that headquarters-subsidary conflict is not necessarily dysfunctional and negative (Dörrenbächer & Geppert, 2006; Pondy, 1992).

**Table 2-5: The advantage of autonomy versus the advantage of centralised structures in the literature**

Autonomous and decentralized structures	Centralized structures
Diverse industry standards.	Having a single image.
Consumer demand for locally differentiated products (Morrison et al., 1991).	Minimized confusion for customers who travel (Papanassiliou & Stathakopoulous, 1997).
Difficulties in managing a global organization (Morrison et al., 1991).	Cost savings.
Global strategies wasting subsidiary competencies.	Central control may facilitate global change strategy.
Significant benefits of being an ‘insider’ (Morrison et al., 1991).	Closer coordination of strategy (Papanassiliou & Stathakopoulous, 1997).
Prevent loss of skills through rationalization (Crookell, 1987).	Headquarters has more network power.
Reduce likelihood of downsizing (Feinberg, 2000).	Relatively stable subsidiary roles, for example avoiding resource reallocation costs (as mentioned in Birkinshaw, 1995).
Allows rapid response to local opportunities or threats (Birkinshaw & Hood, 1997).	Limited control may allow headquarters to prevent excessive initiatives and empire building (Birkinshaw, 1998).
Prevent reduction of local embeddedness and encourage responsiveness.	
Local development agencies may provide incentives (Hood & Taggart, 1999).	

Source: Paterson and Brock (2002)

As reviewed in prior sections, the literature on perception gaps has suggested that

larger perception gaps have a negative influence on headquarters-subsidary relationships. However, the headquarters-subsidary relationship is quite complex and we do not know how the outcomes interact with each other in a comprehensive manner. In some cases, the consequences could have a bandwagon effect and make the situation worse, which Birkinshaw et al. (2000) describe as a vicious cycle. On the other hand, the consequences could have an offsetting effect. However, few studies have so far examined the relationship among these perception gap consequences. Birkinshaw et al.'s (2000) study is one of the exceptions. It examined the relationships among the outcomes from perception gaps, but its scope with regard to subsidiary role was limited.

The balkanisation of subsidiary role dimensions, without clarifying the relationship among them, is a methodological problem and a significant limitation. As summarised in 2.2.1, it seems that no consensus exists on what should be regarded as the subsidiary role factors; indeed, perception gap studies have selected subsidiary role dimensions rather arbitrarily. Thus, various studies about the effects of perception gaps on subsidiary roles have selected different role dimensions. For example, Birkinshaw et al. (2000) regarded the strategic market importance of the local environment as a key subsidiary role. They also defined headquarters control over the subsidiary and headquarters-subsidary coordination as outcomes of perception gap dependent variables.



Arvidsson (1999) defined subsidiary capability as the subsidiary role and knowledge flow as the outcome of perception gaps. Daniel (2010) defined the subsidiary role as comprising market importance, subsidiary capability, information flow, and headquarters control.

#### ***2.4.2 Second research gap: unclear differences regarding directionality***

The second research gap is that while several studies have applied the concept of perception gap directionality, they have not examined how directionality influences subsidiary performance. Arvidsson (1999) and Birkinshaw et al. (2000) are exceptions. Arvidsson (1999) examined positive and negative perception gaps, comparable to subsidiary overestimation and headquarters overestimation respectively, regarding subsidiary capability and confirmed that both types of perception gap influence information flow negatively. Birkinshaw et al. (2000) confirmed that subsidiary overestimation strengthens headquarters control and has a negative influence on headquarters-subsidary cooperation quantitatively. However, this research did not examine subsidiary performance directly, and the consequences of headquarters overestimation were not made clear.

Hence, the research gap identified here is one which is important but difficult to

fill for mainly two reasons. First, the required survey involves stakeholders from various backgrounds. A headquarters and subsidiary dyad set at least is needed, thereby increasing the survey's complexity. Second, companies are usually not willing to provide performance data, and it is even more difficult to gain such data from all the headquarters-subsidary dyad set. Considering these difficulties, strong involvement with senior management teams and managers in key departments is needed in order to link perception gaps with subsidiary performance.

## **2.5 Summary of Literature Review**

The literature review has clarified that the literature has not examined the relationship between headquarters-subsidary perception gaps and subsidiary performance (see Figure 1-1). Further, because of several study limitations, this research gap is problematic, especially for practitioners.

As a result of this literature review, the original research question, 'How do perception gaps between MNCs' headquarters and subsidiaries regarding subsidiary roles affect subsidiary performance?' is extended to the following sub-questions.

- Should we distinguish between expatriate and HCN managers in perception gap

studies? If so, which of them should we focus on?

- What subsidiary role dimensions are suitable for perception gap studies from the perspective of MNC managers?
- Do the consequences of perception gaps differ according to directionality (subsidiary overestimation and headquarters overestimation)?

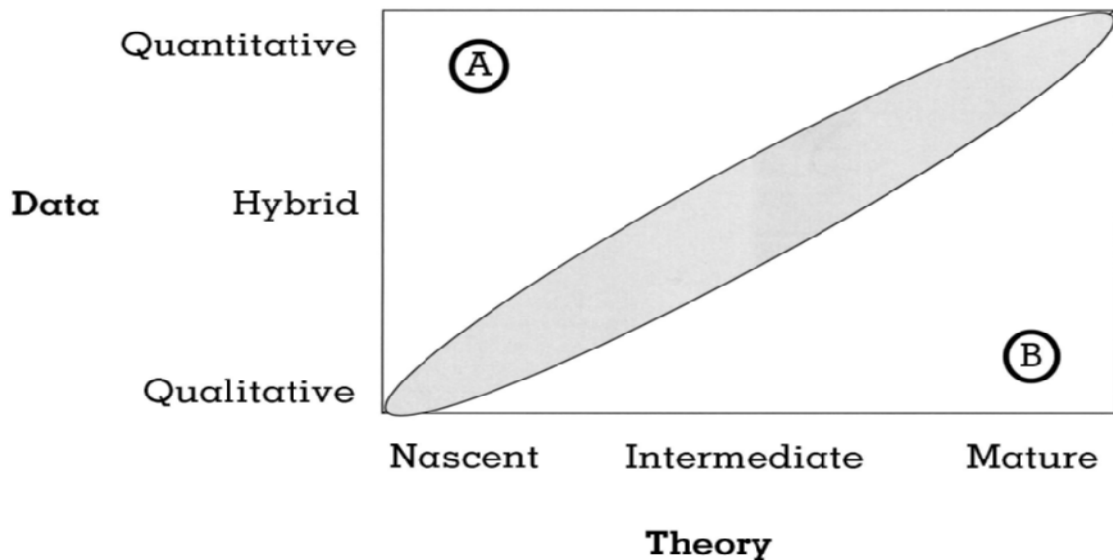
The next chapter discusses this study's overall approach to an examination of the aforementioned questions.

### **3 OVERALL RESEARCH DESIGN: MIXED APPROACH**

#### **3.1 Research Design Options**

Although prior studies considered subsidiary roles, perception gaps, subsidiary performance, and expatriate coordination, few of them directly consolidated the research questions raised in this study. Thus, I defined the state of prior theory and research in this field as somewhere between nascent and intermediate (see Figure 3-1) and decided that an exploratory approach, which is also inductive, was the most suitable for the present study.

**Figure 3-1: Methodological fit as a mean tendency**



Source: Edmondson and McManus, 2007

This inductive and explorative research technique leads to a hybrid approach which uses both qualitative and quantitative methods for overall data collection (Edmondson & McManus, 2007).

### **3.2 Mixed-Method Approach**

Hybrid research designs can be categorised into parallel mixed designs, sequential mixed designs, conversion mixed designs, multilevel mixed designs, and fully integrated mixed designs (Tashakkori & Teddlie, 2003: 685-689; Teddlie & Tashakkori, 2009). This study applies a sequential mixed design which aims to answer chronologically exploratory and

confirmatory questions in a prescribed order. In this regard, the study follows the typical structure of sequential qualitative and quantitative mixed design. The first part of the study is exploratory in nature, using semi-structured interviews to examine several questions with a case study company; then, based on the qualitative analysis, a series of quantitative hypotheses are developed and tested using questionnaires. Teddlie and Tashakkori (2009) said that the strongest inferences are gained when the themes obtained from the qualitative strand are used for comparison with quantitative results. The inconsistency of the two strands is the most striking conclusion from a study (Teddlie & Tashakkori, 2009).

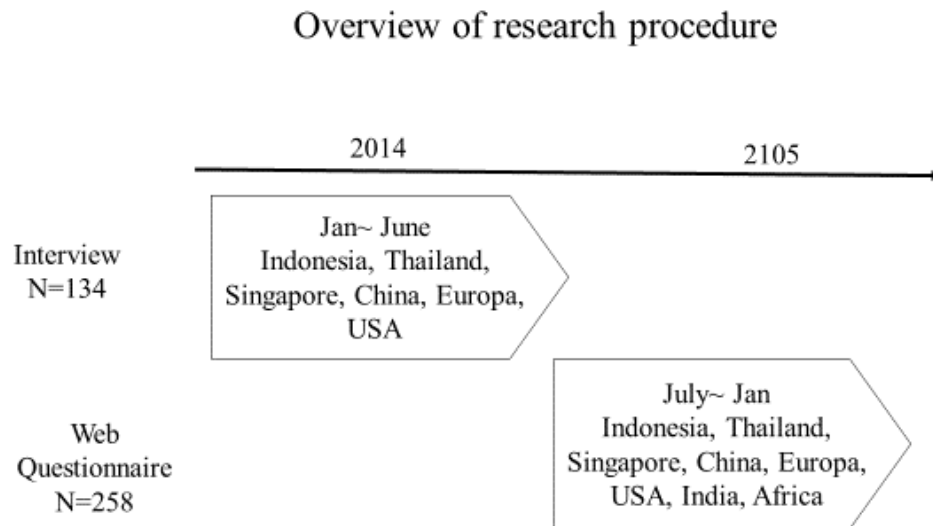
Theory-building processes also apply a mixed approach; thus, the literature and qualitative case interviews are used to develop hypotheses and frameworks. Because of the explorative nature of this research, the literature is not sufficient to formulate the theory for the research questions. Thus, case interview data for theory building are applied when appropriate. In order to use case interview data for theory building, the context of the company is presented first in Chapter 4, including the background and nature of TTC business and the company's organisation. The findings from the case interviews are discussed in Chapter 5 as a bridge between constructs, observations, and descriptions to frameworks and typologies, with categorisation based upon the attributes

of phenomena (Christensen & Carlile, 2009). The case data for theory building are then applied.

As a sample company, TTC is used in two ways in this study. One is for qualitative analysis through case interview research and the other is for quantitative analysis through a questionnaire survey. Thus, the research questions are studied in a stereoscopic way.

Qualitative interview research was conducted during January 2014 to June 2014, and qualitative Web questionnaire research was conducted during July 2014 to January 2015. Quantitative research was supposed to be completed by October 2014; however, the number of responses did not reach the target level. The number of responses finally reached the minimum target number in January 2015, after continuous follow-ups. Figure 3-2 provides an overview of the research design.

**Figure 3-2: Overview of research design**



## **4 PHASE 1 RESEARCH: QUALITATIVE RESEARCH FOR THEORY DEVELOPMENT**

Because of the explorative nature of the research questions, this research conducted an in-depth single case study of TTC in order to build theories (Yin, 2009). It then executed quantitative empirical research through questionnaire surveys. This chapter discusses the details of the qualitative research phase which was conducted for the purpose of theory development.

### **4.1 Research Design and Method of Qualitative Case Research**

#### ***4.1.1 Research design***

##### **Case study**

The literature review indicated several theoretical gaps in the context of my central research question about the ways in which headquarters-subsidary perception gaps influence subsidiary performance. The mechanism of the headquarters-subsidary relationship seems quite complex; thus, it appeared necessary to investigate the organisational dynamisms in detail in order to link perception gaps to performance. Case studies are suitable for investigating messy relationships, complex constructs, and mechanisms which may be difficult to quantify or understand in any other way



(Eisenhardt, 1989a; Gerring, 2004; Ghauri & Grønhaug, 2005). In order to investigate the underlying effects and mechanisms of headquarters-subsidiary perception gaps, a case study research strategy was adopted in order to develop frameworks and hypotheses.

The other reason for selecting the case study approach is that case studies are well suited for combining inductive-deductive investigations. Exploratory qualitative studies also need theoretical backgrounds (Birkinshaw et al., 2011); consequently, this study aims to refer to theoretical constructs and seeks to contribute to the development of new frameworks in order to explain an under-researched phenomenon. In this regard, case studies enable researchers to establish new concepts while simultaneously relying upon predefined concepts (Eisenhardt, 1989a, 1989b).

### **Unit of analysis**

At this qualitative analysis stage, the unit of analysis is defined as the subsidiary business unit. Other options for the unit of analysis with regard to headquarters-subsidiary perception gap research are an entire subsidiary or an individual project. However, considering the growing diversification of MNCs, performance evaluation would be vague if an entire subsidiary organisation is applied as a unit of analysis. An individual project as a unit of analysis would make it easier to evaluate performance. However, not

all subsidiaries work on a project basis, and the present study would be biased if it focused only on a project. Thus, it was concluded that the subsidiary business unit is the optimal unit of analysis for the research questions.

#### ***4.1.2 Case selection***

I selected TTC as a research case study. Because I have examined just one company, it would seem that my approach is that of a single case study; however, in reality, TTC's matrix business unit structure provides ample opportunity to study multiple cases about headquarters-subsidiary perception gaps.

While multiple cases enable the building of more robust, generalisable, and parsimonious theories than single cases (Eisenhardt & Graebner, 2007), there are five major rationales for single-case designs: 1) when the case represents a critical case, 2) when the case represents an extreme case or unique case, 3) when the case is a representative or typical case, 4) when the case is a revelatory case, and 5) when the case is a longitudinal case. TTC is both representative and extreme at the same time. The company is representative of Japanese MNCs with its comprehensive business portfolio of electronics, automobiles, chemicals, machinery, automobile parts, energy, food, metal, insurance, logistics, and other strategic business units (SBUs). These SBUs represent

major industries of the Japanese economy. In terms of sales, the trading industry is the largest industry in Japan. Of the other major industries, the electronics industry is the second largest, the automobile industry is third, the chemical industry is ninth, the machinery industry is tenth, the automobile parts industry is eleventh, the energy industry is fourteenth, the food industry is fifteenth, and the metal industry is eighteenth. TTC also has the characteristics of both a manufacturing company and a service company. Because of its strong ties with the Toyota Motor Corporation, which is one of the top manufacturing companies in Japan, TTC has a *monozukuri* (manufacturing) culture and owns several manufacturing facilities. At the same time, TTC has a service business culture as one of the top trading companies in Japan; indeed, the company's culture as a trading company was reinforced through the acquisition of the Kasho and Tomen Corporations. Thus, TTC could be regarded as a microcosm of Japanese MNCs in their entirety, with interests in various key industry sectors, both manufacturing and services, within its global business portfolio. TTC is also an extreme case of a Japanese service MNC because it has the highest foreign sales ratio among all the larger Japanese service MNCs.

In this study, an embedded single-case design was applied with TTC as a sample company because it has several embedded units of analysis (as of 2009). Even though this

study uses only one company, such an approach can be as effective as multiple case studies because of TTC's comprehensive business portfolio, as described above. TTC has seven different business units, all of which have different industry dynamics. The company operates these businesses in more than 150 countries, covering the US, the EU, and China, as well as countries from the Association of Southeast Asian Nations (ASEAN) and Africa. Since the aim of this research is to examine the relationship of the perception gaps between headquarters and subsidiaries and subsidiary business unit performance, TTC's matrix business unit structure provides ample opportunity to study multiple cases of seven different business units in eight countries.

#### ***4.1.3 Data collection method and process***

This study aimed to conduct interviews with at least three types of MNC manager, headquarters managers, expatriate managers, and HCN managers, in the same business unit. Since interviews are one of the most potent methods for accessing and understanding the underlying rationales, beliefs, and values of individuals (Fontana & Frey, 1994; Rubin & Rubin, 2005), this triad of structured interviews may best visualise the headquarters-subsidary perception gap dynamism. I also aimed to cover several geographic locations in order to confirm if there are any regional differences. However,

this kind of complex study structure needs strong corporate-wide support; thus, I approached the CEO, the board of directors (BOD) of TTC's Strategic Planning Department, and the general manager of the Global Human Resources Department for their consent for this study. They all agreed to support the research.

### **Selection of interview site and interviewees**

The president of the Strategic Planning Department suggested which subsidiaries to visit for interviews. A further suggestion was to conduct the questionnaire surveys based on several criteria such as 1) coverage of the business units and 2) difference in level of establishment. Based on these criteria, the US, the EU, Thailand, Indonesia, China, and Singapore were selected as interview sites. As presented in Table 4-1, the US subsidiary has seven units, the EU has seven units, Thailand has eight units, Indonesia has seven units, China has eight units, and Singapore has six units.

All the interviews were arranged through the company's Global Human Resources Department. The selection criteria for interviewees were that they 1) held the most senior position in the business unit and 2) had more than two years' experience working for TTC.

**Table 4-1: Interview target by country and business unit**

Interview Target						
	US	Thailand	EU	China	Singapore	Inodnesia
Metals	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	NA	<input type="radio"/>
Global Parts & Logistics	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Automotive	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	NA
Machinery, Energy & Projects	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	NA	<input type="radio"/>
Chemicals & Electronics	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Food & Agriculture	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Consumer Products & Services	NA	<input type="radio"/>	NA	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Corporate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<input type="radio"/> Yes <input checked="" type="radio"/> No						

NA: the appropriate strategic business unit does not exist in the subsidiary

## Interviews

The number of interviews conducted was 134, including interviews with 19 headquarters managers, 56 expatriate managers, and 59 HCN managers. These interviews also encompassed 37 strategic business units and six corporate units in the six subsidiaries.

In order to maintain a balance between focusing on specific topics and flexibility to enable the interviewees to elaborate on their answers, the interviews were semi-structured. Sometimes, insightful findings can come from answers which on the surface appear to deviate from the subject. Thus, a set of questions was carefully constructed based on the theoretical frameworks and discussions with the company's Strategic Planning Department and Global Human Resources Department.

Some standard interview questions were added to confirm specific issues. For

example, I added questions about coordination via HCN managers after I found that expatriates sometimes use HCN managers for coordination. A framework of the standard interview questions is as follows.

- Biography of the interviewee.
- How the interviewee evaluated the performance (exploration activities and exploitation activities) of the business unit.
- How the interviewee perceived the role of the business unit.
- How the interviewee perceived the business unit's capabilities.
- How the interviewee perceived autonomy/control of the business unit.
- How the interviewee perceived the activities of expatriates.

During the interviews, perception gaps were discussed and confirmed in two ways. The first was to ask each interviewee about his/her recognition of perception gaps. I asked subsidiary managers if they felt overestimated or underestimated by headquarters managers and asked headquarters managers if they felt that subsidiary managers overestimated or underestimated themselves. The second was to compare the answers from the headquarters managers and subsidiary managers to the same

questions.

Pilot interviews with senior executives were conducted during November and December 2013. These were followed by the actual interviews from January to June 2014 with a TTC HR manager attending most of them. The first interviews with headquarters managers were conducted in January 2014. The interviews with Indonesia, Thailand, and Singapore took place in February and those with China and the U.S. occurred in March and April respectively. Follow-up interviews with headquarters managers were conducted in May, and interviews with EU managers took place in June.

**Table 4-2: Number of interviews by country and position**

Number of interviewed people								
	US	Thailand	EU	China	Singapore	Inodnesia	HQ	Grand Total
National staffs	10	14	9	9	11	6		59
Expatriates	7	9	8	17	7	8		56
HQ							19	19
Total	17	23	17	26	18	14	19	134

### **Organising the interview data**

Most of the interviews were conducted face-to-face in meeting rooms at the focal organisation. In most cases, I had brief profiles of the interviewees in order to obtain some details of the interviewees in advance. I sent a framework of the interview questions in advance to each interviewee with a brief explanation of the background to the interview.



All interviews were conducted in English or Japanese. Most interviews in China were conducted in Japanese and most of the interviews other than those in Japan and China were conducted in English. Since the official working language in TTC is English, it seemed that most non-native English-speaking managers could properly communicate in English. Each interview lasted about 45 to 60 minutes with detailed note taking. Most of the interviews were also audio-recorded, although not all of them have been transcribed. The notes were revised after checking them against the recorded interviews.

With interviews, there is a risk of the interviewer showing bias by leading the interviewees, either by posing leading questions or signalling his or her own personal beliefs and stances through comments, body language, and follow-up questions (Fontana & Frey, 1994). There is also the possibility of bias when the interviewer interprets the answers. In order to avoid bias, I developed neutral questions and tried to ask about the same topic in different ways. The attendance of human resources managers may also have helped me to avoid asking biased leading questions.

#### ***4.1.4 Archival materials and secondary quantitative data sets***

Secondary data were used for three reasons: 1) to avoid the drawbacks of bias regarding the primary interview data, 2) to counterbalance any forgetfulness by the interviewees

and maintain the accuracy of facts, and 3) to position the interviews in a more generalisable context.

Data were collected from both public and TTC internal sources. Public data included industry magazines, papers, business magazines, and secondary quantitative data sets. Internal data included memos, reports, annual reports, PowerPoint presentations, company history books, and others.

The list of publicly available data collected for this study is as follows.

- Shosha (Trading Company) Report: 12 issues.
- Nikkei Business: 22 articles.
- Nikkei News: 13 articles.
- Nikkei Industry Map: 1 issue.
- Weekly Toyo Keizai: 32 articles.

In order to obtain a macro overview of the industries, second-hand quantitative data sets were also used for financial analysis. The data sets were obtained from Speeda, an online information service. The richest information source of archival materials came from TTC's internal records. The list of archival documents obtained from TTC is as

follows.

- Annual reports: 4 (in Japanese and English).
- Reports and studies: 25.
- Reports made by third parties for TTC: 2.
- PowerPoint presentations: 32.
- Corporate history book: 2.

#### ***4.1.5 Data analysis method***

Qualitative data analysis techniques vary widely and depend upon a study's research questions and goals. Qualitative analysis generally uses categorisation, conceptualisation, and visualisation processes (Teddlie & Tashakkori, 2009). For the categorisation process in this study, a coding approach was applied because coding is recommended for conceptualising causality and predictions (Punch, 1998). In order to find overarching themes, interview data and secondary data were coded manually based on interview notes which were supplemented by listening to the recorded interviews. Some of the interviews were transcribed, and this transcribed data were also used in the coding process.

My qualitative approach could be categorised as a grounded theory approach (Fendt & Sachs, 2008) which applies inductive analysis. Thus, when I broke down

narrative data and rearranging them to produce categories at the first stage, I had no a priori hypothesis. Then, I moved to the categorisation and conceptualisation processes. In order to avoid bias when interpreting data by myself, I frequently asked for the involvement of TTC managers in order to discuss my interpretations of categorisations and conceptualisations. Each interview provided not only comments on specific concepts but also some stories for specific issues.

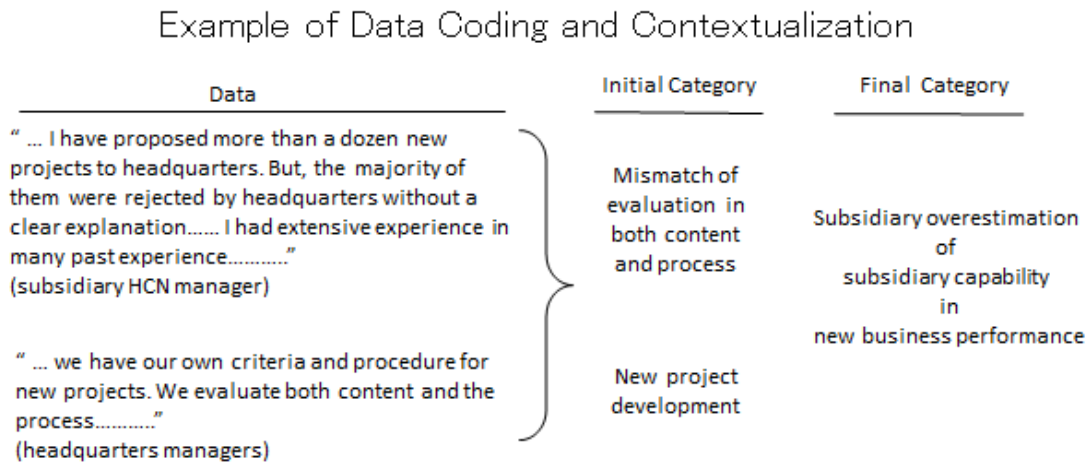
After completing the initial coding sequences, I compared the coded data with the literature for conceptualisation. I also examined the commonalities and differences across the coded data. I found various new dimensions through these processes. One example is how the reaction from headquarters managers differed between subsidiary overestimation in existing business and new business. At the beginning, each concept and keyword were separately categorised in initial categorisations, then gradually re-sorted and synthesised with conceptualisation. Figure 4-1 shows some representative examples of data and the evolution of the coding theme.

Various findings were based on the coding process. A framework was also made for the categories of headquarters-subsidary perception gaps. Then, hypotheses were developed based on this framework.

Before discussing the findings from the case interviews, I describe TTC's

background in order to explain how a study of one company led to a multiple case study.

**Figure 4-1: Example of data coding and conceptualisation**



#### 4.2 Context and Empirical Case: A Description of the Toyota Tsusho Co., Ltd. (TTC)

The background of TTC is described in this chapter in order to explain the context of the case study.

The *sogo shosha* (general trading company) business model is thought to be unique to Japan. Even so, TTC is unique among general trading companies in that it has developed and continued to broaden its business portfolio through mergers and

acquisitions (M&A) under the strong influence of the Toyota Motor Corporation. It may not be widely known, but TTC has grown to such an extent that it has more than tripled its sales and seen at least a five-fold increase in operating profit over the last ten years. At the same time, the majority of Japanese companies are finding themselves under pressure to revise their management models in the face of globalisation. In the service industry in particular, companies with a greater domestic presence tend to have fallen behind in terms of overseas expansion. Indeed, more and more major Japanese service companies are starting to regard globalisation as an urgent priority. TTC also has a higher percentage of overseas sales than any other major general trading company, which effectively makes it the service business with the highest proportion of overseas sales in Japan.

TTC has carried out a number of management reforms, both strategic and organisational, based on its medium- to long-term vision. As the company has carried out structural reforms with an emphasis on creating new businesses, and organisational reforms designed to push ahead vigorously with globalisation, some reforms have gone according to plan, and some have not, on both fronts. It is against this backdrop that TTC has commenced preparations to formulate a long-term vision for the next ten years.

#### ***4.2.1 History and positioning of TTC***

TTC essentially started life as a specialist trading company dealing in automotive and related products, with the Toyota Motor Corporation as its main customer. It was not until TTC merged with Kasho and Tomen that it became more of a general trading company. As of 2014, TTC has a combined role as one of Japan's main general trading companies and as one of the core companies which make up the Toyota Group, spearheaded by the auto manufacturer the Toyota Motor Corporation. The following section takes a brief look at the company's history.

**Establishment: 1930s-1970s.** TTC's predecessor, Toyoda Kinyu Kaisha, was established by the Toyota Motor Corporation as a monthly instalment sales company in 1936. Although temporarily dissolved during the post-war years, the company was re-established as Nisshin Tsusho Kaisha, Ltd. in accordance with the Enterprise Reorganisation Act in 1948 with the aim of assuming control of the trading division from Toyoda Sangyo Kaisha. Following this, the company went through a number of incarnations and was renamed Toyoda Tsusho Kaisha, Ltd. in 1956 before adopting the English name of the Toyota Tsusho Corporation in 1987. TTC has a long history of conducting business overseas, having established a Dhaka Liaison Office in East

Pakistan in 1952, a Nisshin Dallas Liaison Office in the US in 1953, and a joint venture called the Nisshin (Thailand) Agency in 1955 (with a 50% investment). It established its first overseas subsidiary in the US, in the form of Toyoda New York, in 1960 and began exporting Toyota vehicles to the Dominican Republic in 1964. The company listed on the Second Section of the Nagoya Stock Exchange in 1961 and went on to list on the First Section of the Tokyo Stock Exchange in 1977.

**1980s-1990s.** During this period, the Toyota Group started to establish overseas production in various countries around the world rather than simply exporting products from Japan. Following suit, TTC began establishing overseas sales facilities. Over time, the company's activities started to exceed the boundaries of a specialist trading company, including the production of Toyota vehicles in Pakistan. As vehicle exports passed the one million mark, TTC upgraded its Tokyo branch in 1985 to a Tokyo head office as it switched to a dual structure with head offices in both Nagoya and Tokyo. In 1999, the company entered into a partnership with Kasho, a leading player in the rubber and food sector, when it began to expand its operations into other areas outside the automotive industry.



**2000s.** Whereas TTC was mainly positioned as a specialist trading company which helped the Toyota Motor Corporation to expand its operations overseas up to the 1990s, it expanded into other sectors and became more of a general trading company in the 2000s. This development was helped by mergers with Kasho in 2000 and Tomen in 2006. Having started out in 1920 as Toyo Menka, a company which assumed control of Mitsui & Co.'s cotton division, Tomen had been established for even longer than TTC. Toyo Menka later expanded into the food sector through a merger with Taiyo Bussan in 1961 and expanded into metals following a merger with Nankai Kogyo in 1963, thereby cementing its position as a general trading company.

At the time of their respective mergers, Kasho had sales totalling ¥1,736 million (2000) and Tomen ¥ 1,577 billion (2006). In addition to increasing the scale of TTC, the scope of such sales enabled the company to expand into areas outside the automotive sector, including infrastructure, chemicals, and food, in earnest. In 2006, the year of the merger with Tomen, the company launched 'Vision 2015', indicating its intention to create a 50:50 balance in earnings between its automotive and non-automotive businesses. Given the expansion of non-automotive operations since 2006, the balance of earnings was thought unlikely to reach the 50:50 ratio between automotive and non-automotive businesses in the 2015 fiscal year (FY).

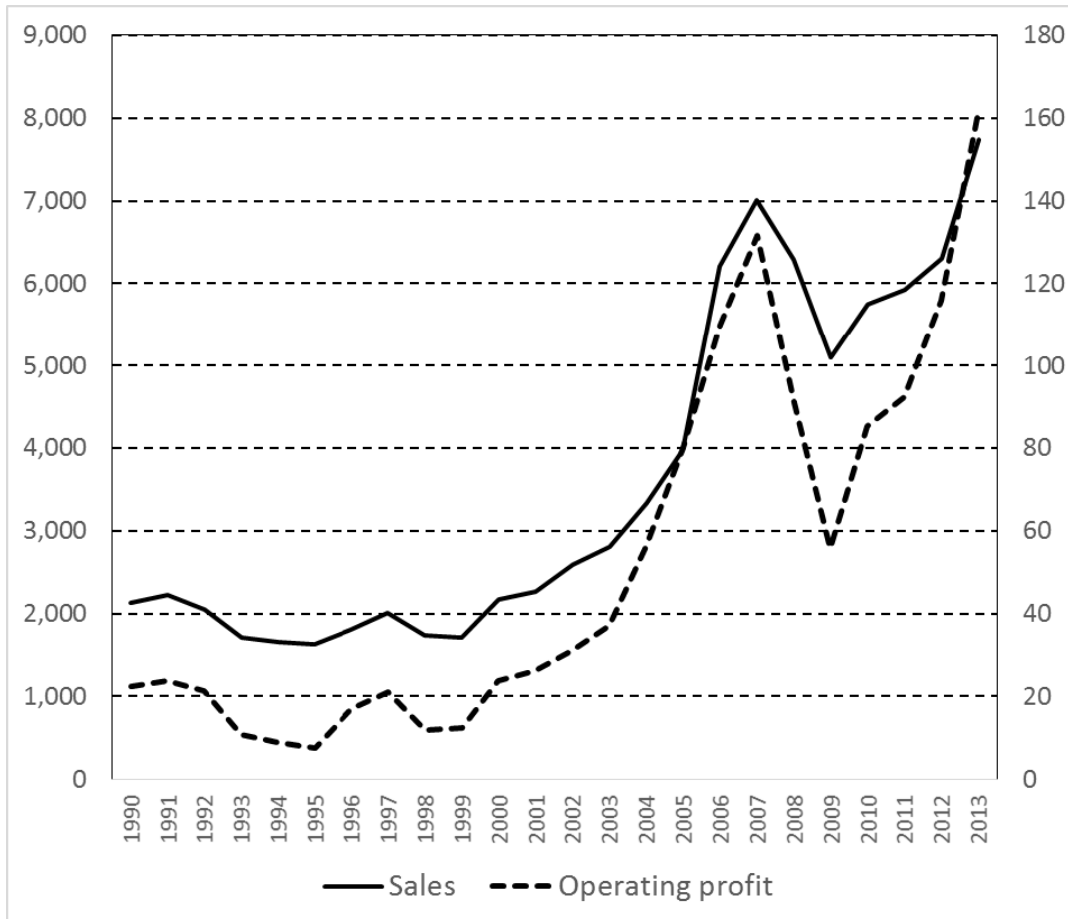
**2010s:** Since the start of the 2010s, TTC has accelerated efforts to expand its operations worldwide. In 2011, the company launched 'Vision 2020', outlining plans to reduce earnings from the automobile sector to one-third from two-thirds while increasing earnings from other sectors. Further, whereas many Japanese companies are looking to expand their operations in Asia, through 'China plus one' strategies for instance, or expand business in India, in 2012 TTC invested capital in the French trading company CFAO S.A., which has business foundations in Africa. CFAO has a particularly strong presence in former French colonies within Africa and specialises in retail in areas such as vehicles and pharmaceuticals. Combined with TTC's own trade area in Africa, where it has a comparatively strong presence in English-speaking countries, the company now has a framework in place to strengthen its strategy throughout the continent.

Generally speaking, one of the ways in which TTC has continued to grow is by covering operations which the Toyota Motor Corporation is unable to handle itself. With the Toyota Motor Corporation as its main customer, TTC has maintained a relatively steady level of income as it has grown, with the exception of the Lehman Brothers crisis. The disadvantage of this, however, is that the company has continued to handle non-core operations for the Toyota Motor Corporation, thereby making it difficult to

achieve a high earnings ratio. TTC is nonetheless looking for new ways to accelerate investment in sectors which are distinct from the Toyota Motor Corporation, particularly since the start of the 2010s. To place TTC's growth in context, Figure 4-2 provides a graphical representation of the company's financial performance from 1990 to 2013.

**Figure 4-2: Financial performance of TTC (1990-2013)**

Sales and operation profit (billion yen)



Source: Speeda

#### ***4.2.2 TTC's business and background***

At the end of 2014, TTC had 694 subsidiaries and 261 affiliates, selling a wide range of products both domestically and overseas, and handling operations such as manufacturing, processing, and selling products; investing in businesses; and providing services. These operations are divided between seven operating divisions, dealing with metals; global parts and logistics; automotive products; machinery, energy, and projects; chemicals and electronics; food; and consumer products and services.

**TTC's global operations.** Regional sales figures for TTC indicate that Japan accounted for the majority of its business until around 2005. The figures were 71% for Japan, followed by 11.2% for North America, 9.7% for Asia and Oceania, and 6.4% for Europe, and 1.7% from the rest of the world. By the FY ending March 2013, however, the percentage of overseas sales had increased to the point that Japanese sales accounted for 61%. Given that overall sales roughly doubled during this period, it is fair to deduce that overseas sales increased dramatically. There has also been an even greater shift in terms of operating profit, with Japan now accounting for 37.1%, compared to 33% for Asia and Oceania, 12% for North America, 6% for Europe, and 12% for other regions.

One of the key features of being a general trading company is that strategic

business units have a great degree of control. However, TTC has significant control over how its overseas subsidiaries operate via its SBUs. Senior management's main role at trading companies' overseas subsidiaries is usually to provide administrative capabilities in areas such as personnel and accounting. Compared to other general trading companies, however, senior management at TTC's overseas subsidiaries is said to be more involved in business dealings.

As of the end of 2013, TTC had facilities in 128 cities in 50 different countries worldwide and employed 36,000 overseas employees at more than 400 overseas subsidiaries, a figure which took its total workforce to approximately 50,000 employees.

**Regional management.** TTC's overseas operations consist of core overseas subsidiaries, known as 'AS companies'; overseas subsidiaries in which the company has a high equity share, known as 'A subsidiaries'; and companies in which TTC has a low equity share, known as 'B subsidiaries'. In this regard, A subsidiaries and AS companies are both 'subsidiaries'. TTC has more than a 33% stake in A subsidiaries and less than a 33% stake in B subsidiaries. It has around 20 AS companies in locations such as the US, Europe, China, Singapore, Thailand, and Indonesia. Numerous A and B subsidiaries also

provide corporate capabilities in each region to some extent and receive investment from AS companies.

TTC has applied so-called 'Japanese management', including quasi-lifetime employment, in its organisation abroad; indeed, many HCN managers have worked at TTC for more than ten years. The following section provides an outline of the main overseas subsidiaries which were interviewed for the purposes of this case study. As of FY 2014, most of the senior positions, including president of the subsidiaries, are held by Japanese expatriates.

#### ***4.2.3 Core foreign subsidiaries: outline of major AS companies (as of FY 2014)***

##### **USA: Toyota Tsusho America, Inc. (TAI)**

TAI was established as TTC's wholly owned US subsidiary in 1960, following the liaison office established by Nisshin Tsusho in Dallas in 1953. The company started by exporting US-made tools and products to Japan and other parts of Asia. It then opened offices in San Francisco and Lexington to coincide with the establishment of New United Motor Manufacturing Inc. (NUMMI), a joint venture between General Motors (GM) and Toyota. In 1987, it established a service centre, revolving primarily around its steel centre in Georgetown, Kentucky, and began supplying steel to the Toyota Group.

TAI is headquartered in Georgetown and New York. It has 1,000 non-consolidated employees and a consolidated workforce of 2,500, with sales of around ¥57 million in FY 2013. In total, TTC has 24 consolidated subsidiaries and eight equity method affiliates in the US. TAI is the company's oldest and largest overseas subsidiary; it is also thought to have a comparatively high level of independence in terms of management. TAI engages in activities which correspond to all seven of TTC's operating divisions. As part of the mergers involving TTC, TAI merged in 2000 with Kasho USA, which mainly deals in food and chemicals, and with Tomen America, Inc. in 2006, assuming control of operations in areas such as chemicals, food, and textiles.

TAI has an extensive nationwide network in the US which is focused particularly on providing services in support of the company's core automotive value chain. It also provides cross-border logistics services across the Mexican border in San Diego and Laredo, and operates warehouses in 12 locations (eight states) around the US. In addition, TAI provides onsite services at customers' plant premises, including unloading parts by forklift, sorting empty boxes, and shipping installation equipment. By operating alongside customers' businesses in this manner, TAI provides services which are similar to those provided for the Toyota Motor Corporation in Japan (or which even go beyond their Japanese services in some cases).

TAI's close links with the Toyota Motor Corporation are epitomised by its role in handling all sales and marketing for distributors in the Caribbean. In this regard, TAI is the sole trading company entrusted with operations on behalf of the Toyota Motor Corporation. Although TAI's main customer is the Toyota Motor Corporation, it also provides services for a wide range of other customers, including GM, Volkswagen, Nissan, Mazda, and Hyundai. Elsewhere, TAI provides logistics support services in industries such as aviation and home appliances. In terms of operating existing businesses relating to the Toyota Motor Corporation as a US subsidiary, TAI works with greater independence than other overseas subsidiaries, as does the management, and is regarded as being relatively stable. Nonetheless, employees at the US subsidiary and those at head office do not always see eye-to-eye regarding the growth potential of the US market, although both sides recognise this difference of opinion.

TTC also has a number of core facilities in North America which do not have any obvious links to the Toyota Motor Corporation. In the Machinery, Energy, and Project Division, for instance, Toyota Tsusho Power USA, Inc. provides services relating to thermal energy in North America, focusing mainly on natural gas power generation. The energy industry generally relies on harnessing economics of scale, and because TTC is not necessarily a significant player in the industry, it is looking for an



opportunity to acquire a 25-50% share in the relevant power business, for an investment of ¥20-30 billion, as part of a focus strategy.

**Singapore: Toyota Tsusho Asia Pacific Pte. Ltd. (TTAP)**

TTAP was established as TTC's subsidiary in Singapore in 1975 and given a management role supervising the rest of Asia. It has eight AS overseas subsidiaries under its umbrella in the Asian-Oceania region, including the Singapore Business Unit (Vietnam, India, Indonesia, Thailand, Philippines, Australia, Singapore, and Malaysia). It is responsible for supervising around 22,000 employees (including 258 Japanese employees) in 14 different countries, and has significant investments of 20% or more in 151 companies. Despite its supervisory role, individual businesses are heavily controlled by the respective SBU. Essentially, TTAP's role is to provide corporate capabilities across the Asian region in areas such as personnel.

Including supervisory capabilities and business units, TTAP has a combined workforce of more than 220 employees in Singapore. The percentage of Japanese employees assigned to Singapore to handle supervisory capabilities, among other things, is fairly high at 15%.

TTAP has achieved steady growth, with sales rising from US\$774 million in

2005 to US\$2.707 billion in 2013. Automotive operations account for approximately 70% of the company's business, with global production parts making up 35%, vehicles 31%, and automotive business development 3%. As the Toyota Motor Corporation has accelerated its business expansion within Asia, TTAP has played a crucial supporting role in facilitating the immediate procurement of parts and logistics throughout the Asian market. Customers for TTAP's synthetic resins and other chemical products are spread across a wide area, including India, the Middle East (Dubai, etc.), and South Africa, as well as Vietnam, China, the Philippines, and other parts of Asia. The company's head office recognises that employees at the Singapore subsidiary have a comparatively high level of operational and administrative management skills.

TTC's operations have become increasingly diverse, and Asia has been no exception. The company has continued to expand its business portfolio in the region, from entering the hospital business in India in the life and community sector (in partnership with SECOM and a local company) to entering the frozen food manufacturing industry in Vietnam.

As part of its 'National Staff (NS) Project', TTC has been working to promote the use of NS at overseas subsidiaries and to transfer duties with a greater degree of responsibility to such staff. In addition to delegating existing operations to NS at TTAP,

the company has established a project team consisting entirely of NS as part of a project to create new businesses. This NS-led project, known as the 'Co-Creation Project', has so far included telematics-based mobile services and an electric vehicle (EV) project in conjunction with the National University of Singapore. However, there have been occasional instances of miscommunication between local staff and head office in relation to new businesses such as these.

TTAP is planning to strategically expand operations in line with industrial development across the Asian region. For example, it is currently observing infrastructure development in countries such as Myanmar, Laos, Cambodia, and Bangladesh as it lays the groundwork for future business. With the essential industrial infrastructure already in place to a certain extent in countries such as Vietnam, Indonesia, and the Philippines, TTAP is also providing support in the automotive sector, from simple assembly to fully manufacturing parts in-house. In comparatively more developed areas of the ASEAN region, including Thailand and Malaysia, where supporting industries are starting to appear around the automotive industry, TTAP is working to incorporate cutting-edge technologies in order to improve efficiency. As well as being positioned as an advanced region and a high added-value service market, Singapore is also expected to serve as a hub for the rest of Asia.

### **Thailand: Toyota Tsusho Thailand (TTTC)**

TTTC was established in 1957 as a joint venture between the Thai conglomerate run by the Jaovisidha family (51%) and TTC (49%). In light of the company's nature as a joint venture, a chairman was assigned from the Jaovisidha family and a president from TTC. A further five of the company's nine officers were selected from the Jaovisidha family, and TTC was effectively left to run the business. TTTC has a workforce numbering approximately 680 employees, including slightly more than 70 employees assigned from Japan. A considerable number of the local employees have had extensive experience at TTC, reflecting the company's long history as TTC's first overseas subsidiary. Numerous local employees at general manager level have more than ten years' experience with the company; some in management departments even have more than 35 years' experience with TTC. TTTC also has a number of subsidiaries and affiliates classed as A or B; further, the total workforce for the Toyota Tsusho Thailand Group is thought to number more than 7,200 employees, including around 90 employees assigned from Japan. Thus, assigned employees account for around 8-9% of the entire workforce.

Many of the operations carried out at the TTC head office are also conducted in

Thailand, due in part to the Toyota Motor Corporation's steady expansion of its own operations in Thailand. TTTC has 17 departments under the company's main seven operating divisions. As such, techniques developed at head office are typically rolled out to Thailand ahead of the rest of Asia, underlining that business operations are already well established. However, in spite of steady growth in Thailand to date, concerns exist regarding the automotive market reaching saturation. At the same time, local employees in Thailand are yet to engage actively in new business development.

## **Indonesia**

Although TTC's subsidiary in Indonesia is relatively new, having only been established in 1990, head office nonetheless has high hopes for growth in the region. Including affiliates under its umbrella, the company has a total workforce of more than 1,000 employees (including around 50 employees assigned from Japan). At a divisional level, it is focused on the logistics and chemical sectors, with a greater number of personnel assigned to the relevant divisions.

The company has reached the necessary level of operational capabilities to handle business relating to the Toyota Motor Corporation, with both head office and assigned employees acknowledging that operations can be entrusted to local employees

to some extent. However, a feeling exists that there is room for improvement in terms of overall organisational capabilities. In particular, TTC expects to see new businesses originating at the local level. Given that existing local employees are not thought to have the necessary capabilities to develop new businesses as yet, the number of employees assigned from Japan has been increasing in recent years in order to cover the relevant capabilities. There is also a growing tendency for assigned employees to handle coordination with head office, so much so that the percentage of assigned employees has almost reached 10% of the total workforce. In some instances, local employees have also been recruited from other companies to ensure that they have sufficient experience to handle new businesses.

## **China**

TTC's history in China developed over several stages, starting with the establishment of the Toyota Tsusho (Hong Kong) Co., Ltd. in 1971. The company went on to open offices in Beijing in 1979 and Shanghai in 1981. The Toyota Tsusho (Shanghai) Co., Ltd. was officially established in 1995, followed by limited companies based in Tianjin and Guangzhou in 1997. With a long history of operating in the Chinese market, the company has expanded its business in partnership with the Toyota Motor Corporation

and has a high proportion of local employees who can speak Japanese as a result. Its main focus in China is on machinery, energy and plants, which account for 40% of turnover.

There is a different emphasis in terms of operations in each area, with Shanghai acting as the company's core facility for food, chemicals, electronics, and metals; Tianjin for global logistics; and Guangzhou for machinery, energy, and plants. Beijing deals with consumer products and services, and automotive business, and provides the company's base for managing auto dealers.

In addition to the company handling business relating to the Toyota Motor Corporation, some new business development has targeted the Chinese market. For instance, investing in a local food company and introducing bread-making technology from Japan has enabled the company to establish a business selling high added-value bread products to domestic retailers in China.

Because the company's main customers are local subsidiaries owned by Japanese companies, contacts at these companies often tend to be Japanese. As such, TTC's local employees are generally able to speak Japanese to a relatively high level.

## **Europe**

TTC's subsidiary in Europe is comparatively well established, having been set up in 1968. Although the Toyota Motor Corporation may not necessarily have a strong presence in Europe, TTC's European subsidiary and the companies under its umbrella have a large combined workforce that caters to diverse demand in Europe, numbering more than 6,000 employees. With around 70 employees assigned from Japan, the overall percentage of assigned employees is relatively low. This can be attributed in part to the company's long history in Europe, which has enabled it to develop human resources which are capable of handling operations at the local level. Although operations are not expected to expand to any great extent in parts of Europe such as France and Germany, high hopes exist for growth markets elsewhere in the EU, including Eastern Europe and Turkey.

TTC's European subsidiary is headquartered in Brussels, where it has a workforce of around 40 employees, chiefly providing administrative capabilities. One in four of these employees are assigned from Japan. The company also has comparatively large facilities in Düsseldorf, the Czech Republic, Turkey, Poland, and in London and Derby in the UK. Although the president of the UK subsidiary is Japanese, most of the company's senior managers are local employees. With local employees also promoted to general manager level in other areas, the overall percentage of assigned employees is



lower than in other countries at around 5%.

## **Africa**

Having established a local subsidiary in 1999, TTC currently conducts business in the automotive sector in 25 African countries, focusing primarily on countries which were formerly under British rule such as South Africa and Kenya. Companies under the subsidiary's umbrella have a workforce of more than 500 employees, with a low overall percentage of assigned employees at just 2-3%. In December 2012, the company acquired a 97.81% stake (¥234.5 billion) in the French company CFAO. Because CFAO conducted business in 32 African countries, chiefly former French colonies, TTC has created a network covering almost all of Africa (53 out of 54 countries). Established in 1887, CFAO is a leading company with a workforce numbering approximately 11,000 employees. In FY 2012, it achieved sales of €3.582 billion and an after-tax profit of €171 million. Although it mainly focuses on the automotive business, CFAO also maintains balanced trade with manufacturers other than the Toyota Motor Corporation, dealing with distributors for over 20 brands, including GM and Nissan, in 44 different countries. Combined with other operations such as pharmaceutical wholesale (covering 5,000 stores) and beverages, TTC has high hopes that CFAO will enable it to expand the

scope of its operations in Africa. Generating synergy between TTC and CFAO is nonetheless expected to require careful consideration in the future.

In sum, Table 4-3 provides profiles of the TTC subsidiaries discussed in this section.

**Table 4-3: Profiles of TTC subsidiaries studied in the research**

		US	Thailand	EU	China	Singapore	Inodnesia	India	Africa
Establishment of core subsidia	Year	1953	1957	1968	1971	1975	1990	1999	1999
TTC share	%	100	49	100	100	100	100	100	100
Total number of employees		1263	696	999	867	226	279	686	362
Expatriate ratio	%	6.4	8.5	4.9	11.1	15.5	9.7	4.8	3.6
Interview		0	0	0	0	0	0		
Questionnaire		0	0	0	0	0	0	0	0

#### **4.2.4 Business structure**

Until around 2005, TTC's business structure was slightly skewed in favour of metals, with the Metals Division accounting for 39.8%, the Machinery and IT Division 25.6%, the Automotive Division 16.2%, and the Energy and Chemicals Division 9.6% and rest of the others 8.8%. Although it is impossible to make direct comparisons to 2005 because the company's business has been reconfigured slightly since then, TTC has been working to establish a more balanced business structure during the FY 2013, as outlined in the following.

Key operations conducted by each of the company's divisions are described, with the figures in parentheses referring to the percentage of sales for FY 2013.

### **Metals Division (23.6%)**

The Metals Division's activities include processing, manufacturing, treatment, and sales. These chiefly bridge the gap between suppliers, such as furnace manufacturers, and users, which include vehicle and parts manufacturers. The main products include steel and specialty products, steel construction materials, nonferrous metal ingots, precious metals, aluminium products, copper and copper alloy products, iron and steel scrap, nonferrous scrap, ferroalloy products, pig iron, end-of-life vehicles (ELV), recycling and waste catalysts, rare earth resources, and rare metals.

Although TTC typically maintains wide coverage throughout the supply chain and becomes involved in processing, it also provides services in line with users' needs. In the steel sheet sector, for example, it uses both domestic and overseas processing facilities in order to provide blanking services. In the nonferrous metals sector, TTC supplies aluminium in molten form, as opposed to the standard practice of supplying ingots, in areas such as North America, Europe, and Asia, in an effort to reduce the total energy cost and reduce environmental impact.

Compared to the company's other divisions, the Metals Division is said to have made more progress establishing techniques and promoting a more Japanese approach to business around the world.

### **Global Parts and Logistics Division (11.5%)**

As well as manufacturing, selling, and servicing key products in the form of automotive components, the Global Parts and Logistics Division also provides logistics and tire assembly services. Its strength lies in establishing worldwide logistics networks to support the value chains on which almost all automotive manufacturing processes depend. In sectors requiring procurement of upstream capabilities, for example, the division has a history of trading with approximately 1,000 parts manufacturers worldwide. It also has dedicated members of staff dealing with automotive parts at 31 overseas facilities. However, rather than merely sending out items, the division also provides added-value services as part of this operation, including processing if necessary. Consequently, the division has established a framework which enables it to offer a full range of capabilities, from product planning, design, and development to production.

This is another division which is said to have made progress in establishing

techniques and promoting a more Japanese approach to business around the world.

### **Automotive Division (16.8%)**

With a network consisting of 392 facilities in 84 countries, the Automotive Division exports and sells cars, commercial vehicles, light vehicles, motorcycles, trucks, buses, and automotive parts to upward of 150 countries around the world. In recent years, it has also increased sales of locally produced parts, imports and exports between third-party countries, and exports from Japan.

Since the 2012 acquisition of shares in CFAO, which specialises in automotive sales in northern and western parts of Africa, the division has established a more comprehensive sales network across Africa. In order to make the most of this network, the division is aiming to reinforce operations in relation to other brands in addition to those of the Toyota Motor Corporation. The division also sells used vehicles in various countries and in 2012 entered the used vehicle market in Kenya.

Although this is another division which is said to have made progress establishing techniques and promoting a more Japanese approach to business around the world, it also adapts to local practices, in some respects, in areas such as sales techniques.

### **Machinery, Energy, and Project Division (19.7%)**

The Machinery, Energy, and Project Division operates two main lines of business. The first of these involves procurement and sales services in the machinery sector, including machinery and equipment for automotive production, industrial vehicles, and construction. Rather than merely selling machinery, the division provides support for the entire value chain, including planning, procurement, logistics, installation, after-sales services, and supplies of regular items.

The division's other line of business involves the procurement and supply of resources and energy, including oil, natural gas, coal, and water. Again, this covers everything from resource development to facility engineering, procurement, and construction (EPC) support, logistics, sales, and recycling. The division also engages in resource investment, although this primarily involves non-majority investments in the new and renewable energy sectors rather than gaining majority interests in large-scale facilities. Typical examples include wind power projects via a company called Eurus Energy.

The division has a mix of businesses with established techniques and businesses in which new techniques are being established. Because its machinery sales activities

tend to be geared toward selling to other companies, the division hopes to develop a cumulative business model.

### **Chemicals and Electronics Division (22%)**

The Chemicals and Electronics Division is divided into three areas: chemicals, electronics, and hybrid electric vehicles (HEV, next generation mobility). In the chemicals and plastics sector, the division mainly procures, processes, manufactures, and sells chemical products (organic and inorganic) for the automotive industry, as well as items such as packaging materials, detergent raw materials, and hygienic materials. The division is also branching out into sectors such as pharmaceuticals and fertilisers. For example, Suntory uses GLOBIO, a plant-based plastic manufactured and sold in-house by the division, in some of its polyethylene terephthalate (PET) bottles.

In the electronics sector, the division handles electronic components and software embedded into items such as vehicles, home appliances, and industrial machinery. The main products and services include telecommunications equipment, electronic devices, semiconductors, automotive embedded software development, electronic appliances, network integration and support, computers, peripheral devices and software, automotive components, and intelligent transport systems (ITS). The

division's wide-ranging operations also include mobile phone sales and music streaming services.

In the HEV sector, the division's activities include testing next generation mobility infrastructure, with a particular focus on household and automotive storage batteries.

This is another division which has a mix of businesses with established techniques and businesses in which new techniques are being established.

#### **Food and Agribusiness Division (4.1%)**

The Food and Agribusiness Division operates in two main sectors, handling products such as animal feed, oil seeds, rice, wheat, barley, and raw sugar in the grain sector, and products such as food ingredients and prepared frozen food in the food sector. In the grain sector, the division has silos and animal feed complexes in four locations around Japan and uses the company's highly convenient distribution facilities to handle some of the largest volumes of corn, sorghum, and soybean meal of any trading company.

In the food sector, the division has numerous manufacturing facilities, where it processes prepared frozen food and manufactures food products for overseas convenience stores. In Indonesia, the division has established a PET bottle



manufacturing company in partnership with the Hokkaido-based Hokkan Holdings Group. It has also launched a project to farm tuna from eggs in conjunction with Kinki University, a project which has created opportunities to increase the division's profile in the media.

Whereas TTC has always tended to maintain extensive coverage throughout value chains in the food sector, other trading companies tend to focus their investments upstream or downstream. For instance, the Marubeni and Itochu Corporations have established a strong presence for themselves by increasing investment in upstream and downstream areas respectively.

This is another division which has a mix of businesses with established techniques, and businesses in which new techniques are being established.

### **Consumer Products and Services Division (2.2%)**

The Consumer Products and Services Division is divided into three sectors, namely, insurance, lifestyle (mainly apparel), and living and healthcare. Its role is to serve as the driving force in the 'Life and Community' area of TTC's Global 2020 Vision. In the insurance sector, the division focuses mainly on insurance agencies for the Toyota Motor Corporation and provides services such as project insurance and contents

insurance overseas. In the lifestyle (apparel) sector, which used to be one of Tomen's key strengths, the division intends to harness the company's functional materials and production network to develop new businesses. However, because growth has not necessarily proceeded according to plan, it is being forced to review its strategy in this area. In the living and healthcare sector, the division is developing its care business, hospital business, and other businesses revolving around peripheral medical services. It has also started to branch out into residential services and opened a residential hotel in the eastern part of Jakarta (Indonesia) in the fall of 2014 in partnership with a major Indonesian conglomerate, the Lippo Group, an associated subsidiary belonging to the Tokyu Land Corporation and the Toyota Home Corporation.

Although this is a stable division from an operational standpoint, generating healthy revenue from its insurance services, there is thought to be little prospect of rapid growth. In other areas, there are numerous areas where new business models will need to be developed in the future.

### **Administrative Division**

The Administrative Division is responsible for functional operations, including accounting, finance, personnel, general administration, and IT support and management.

While an international matrix organisational structure is a common feature of Japanese general trading companies, a unique feature of TTC is that it has business divisions, such as those which deal with vehicles, logistics, and machinery, which have strong links with the Toyota Motor Corporation. Other divisions, such as those which handle food, agriculture, and consumer products, have fewer links with the Toyota Motor Corporation but are sometimes influential through acquired companies such as Kasho and Tomen. Because of this diversity among the characteristics of the divisions, this single case study has a rationale for generalising the research to other Japanese service MNCs.

#### ***4.2.5 Vision 2015 and Vision 2020***

Rather than continuing along the same lines, TTC's management vision starts from the future and works backward, setting out what the company needs to achieve. In 2006, at the time of the merger with Tomen, the company's business was overwhelmingly skewed in favour of Toyota (i.e. automotive business). TTC's Vision 2015, however, established a goal to achieve a 50:50 balance in earnings between the company's automotive and non-automotive businesses by FY 2016. With the company's earnings showing a ratio of 65:35 for its automotive and non-automotive businesses as of FY

2010, it proposed an ambitious vision in 2011 to achieve an even three-way split (1:1:1) among its mobility (automotive), life and community, and earth and resources areas by 2020. That meant reducing the automotive business to one-third of the company's overall earnings. As of 2014, from total sales of ¥7.7 trillion, TTC's automotive business accounts for just under ¥5 trillion, with non-automotive businesses accounting for around ¥2.7 trillion. If the scale of its automotive business remains at the same level, around ¥10 trillion in sales from non-automotive businesses would be required, meaning that the company would have to generate over ¥7 trillion in further sales from non-automotive sectors. In terms of profit, the company's operating margin on sales is roughly 2%, with consolidated operating profit in FY 2013 totalling ¥161.3 billion. Given that the company has higher profit margins in the automotive sector, it would be fair to assume that TTC will need to generate a profit of ¥160-170 billion from non-automotive businesses if it wants to achieve the profit structure described in Vision 2020. This is an exceptionally ambitious vision which requires TTC to create new businesses on a company-wide scale.

Strategic shifts, including Japanese companies branching out overseas and establishing local operations, are also having an impact on TTC's management strategy. Until now, most Japanese companies have adopted the so-called 'simple global' style of

international management, with an emphasis on taking products and manufacturing methods underpinned by core knowledge from Japan and efficiently replicating them in other countries. In such cases, decisions at overseas subsidiaries tend to be made by employees assigned from Japan, with overseas business negotiations conducted with Japanese negotiating partners. However, as emerging markets have continued to grow, there has been an apparent change in international management at Japanese companies. They now need to research and develop products locally, in accordance with overseas market conditions, and place a greater emphasis on decision-making by local employees. Japanese companies are also increasingly delegating authority to local employees in areas such as production and procurement in accordance with a growing trend toward localisation. Whether they manage existing businesses or develop new businesses, local employees in other countries are likely to become increasingly important for TTC.

At this point, it is worth checking the elements which make up Vision 2020. Although 'mobility' is already the company's core sector, it intends to secure non-Toyota customers separately from the Toyota Motor Corporation. 'Life and community' refers to businesses which contribute to 'improvements in living conditions', and includes healthcare, apparel, and IT. 'Earth and resources' covers sectors which will help to 'solve global issues', and includes areas such as food, resources, and the natural environment.

#### ***4.2.6 Business creation at TTC***

Business creation at TTC is achieved through synergy (harnessing the company's strengths). According to TTC's annual report 2014, it seems that the company performed well in areas where it had some sort of advantage, in terms of its business model or target market, during the period from 2010 to 2013 when it was actively investing in new businesses. This suggests that TTC's strategy for new business development is essentially geared toward harnessing existing strengths first and foremost, rather than entering unknown territories with unfamiliar business environments. Under Vision 2020 in particular, TTC intends to develop operations in the life and community and earth and resources sectors with a clear focus on areas which overlap with the mobility (automotive) sector, where its existing strengths lie.

In the life and community and mobility sectors, for example, TTC has acquired the Elematic Corporation, which supplies materials and components to electronics manufacturers worldwide, as a subsidiary. In light of trends such as automotive computerisation and telematics, which are based on information services which combine GPS and other on-board devices with mobile communication systems, the number of electronic components fitted to vehicles is increasing every year. Investing in

a telematics subsidiary is intended to strengthen the company's automotive electronic component business and pave the way to expand into other non-automotive areas of business, including commercial products such as smartphones and entertainment devices. TTC is also starting to experiment with the healthcare business, building on its hospital management operations in locations near to the Toyota Motor Corporation's overseas plants.

### **Business creation through external growth strategies**

TTC also places a great deal of importance on external growth strategies, including tactics such as partnerships, joint ventures, and M&A. When developing new businesses overseas, areas in which there are business opportunities may not necessarily coincide with any of the company's specialist fields. In such cases, TTC makes use of partner strategies. An example is to form a three-way partnership among TTC, a local business, and a business which specialises in the relevant field in Japan.

Having continued to reform its business structure and organisation in accordance with globalisation, TTC shifted investment toward non-automotive operations from the mid-2000s onward and began to focus on creating new businesses. The company invested ¥63 billion from a total investment budget of ¥83 billion in non-automotive

operations in FY 2010, followed by ¥57.5 billion from a budget of ¥78 billion in 2011, and ¥88 billion from a budget of ¥115 billion in 2012. Excluding TTC's ¥234.5 billion investment in CFAO, it also invested ¥96 billion from a budget of ¥134 billion in non-automotive operations in 2013. Having increased its rate of investment in automotive operations slightly, in FY 2014 the company invested ¥81 billion from a budget of ¥146 billion in non-automotive operations. Over the last five years, non-automotive investment has accounted for approximately 70% of the company's overall investment of ¥556 billion. It usually takes time for investment in non-core sectors to translate into profit, however, and TTC has been no exception. With numerous new investments failing to produce a return, the company is talking of the need for an objective review into overall new investment to date.

As described in Section 4.2, TTC has a diverse business portfolio in various regions and has developed both existing business and new business with multiple approaches. This multifariousness of TTC provides an opportunity to study multiple cases about headquarters-subsidary relationships.



## **5 FINDINGS FROM THE PHASE I RESEARCH: CASE INTERVIEWS**

### **5.1 Findings from the Qualitative Case Interview Survey**

I conducted 134 face-to-face interviews with TTC managers in seven countries, including Japan, in order to provide base data for the development of research frameworks and hypotheses. One of the prerequisite objectives of the interviews was to confirm whether perception gaps about subsidiary roles between headquarters and subsidiary HCN managers would be observed in SBUs around the world. I asked headquarters managers, expatriate managers, and HCN managers about their recognition of headquarters-subsidary perception gaps and found that when they talked about these gaps, they often suggested that expatriate and HCN managers were two separate groups of managers which should not be confused. Tables 5-1 and 5-2 summarise their responses. In the tables, 'o' appears if the manager agreed with the existence of perception gaps between headquarters and HCN managers. As shown in Table 5-1, perception gaps between headquarters and subsidiaries are recognised by almost all the HCN managers in subsidiary SBUs. All the interviewed headquarters managers also mentioned that they had experienced perception gaps with the HCN managers of the subsidiary business units which they supervised (see Table 5-2)

**Table 5-1: Perception gap recognition by HCN managers**

Experienced perception gap between HQ and HCN managers (by HCN managers)						
	US	Thailand	EU	China	Singapore	Inodnesia
Metals	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	NA	<input type="radio"/>
Global Parts & Logistics	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Automotive	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	NA
Machinery, Energy & Projects	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	NA	<input type="radio"/>
Chemicals & Electronics	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Food & Agriculture	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Consumer Products & Services	NA	<input type="radio"/>	NA	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Corporate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<input type="radio"/> Yes <input checked="" type="radio"/> No						

**Table 5-2: Perception gap recognition by headquarters managers**

Experienced perception gap between HQ and HCN managers (by headquarters managers)						
	US	Thailand	EU	China	Singapore	Inodnesia
Metals	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	NA	<input type="radio"/>
Global Parts & Logistics	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Automotive	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	NA
Machinery, Energy & Projects	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	NA	<input type="radio"/>
Chemicals & Electronics	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Food & Agriculture	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Consumer Products & Services	NA	<input type="radio"/>	NA	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Corporate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<input type="radio"/> Yes <input checked="" type="radio"/> No						

Case interviews provided various insightful findings which complement the gaps in the literature and contribute to framework development. These findings also provided data which sometimes contradict what was suggested by the literature. Several key findings are described below with the comments of TTC managers and theories when

appropriate.

However, before discussing the interview findings, I will describe how perception gaps could be positioned in TTC. Although there are various sources of perception gaps, this does not mean that headquarters managers and subsidiary managers are always opposed to each other. In fact, during the interviews I found that headquarters managers and subsidiary managers share fairly consistent perceptions in some areas and have larger perception gaps in other areas. An expatriate manager who came from a trading company commented on this point:

'Compared to my previous experience with another trading company, I sometimes feel that headquarters managers and HCN managers here share a lot in common with TTC. Executives and managers in Japan intentionally provide information to foreign subsidiaries. However, I also notice managers in Japan and subsidiaries do not share the same understanding in various fields. For example, when both say country X has a great opportunity for division Y, managers in Japan mean current potential as a hub for logistics support and local managers mean the potential as a market.'

The expatriate manager continued to explain that even a small perception gap could be problematic:

'A relatively smaller perception gap does not mean the impact or problem of the perception gap are small. Since the expectation level of understanding across regions is relatively high in TTC and our operation process assumes a high context culture, sometimes a small perception gap causes a large impact on our business.'

Although headquarters-subsidary communication is relatively dense in TTC, headquarters-subsidary perception gaps could be observed elsewhere and examining these is a key issue for the company.

### ***5.1.1 First finding: importance of HCN managers***

First, the case interviews suggested the importance of focusing on HCN managers in this headquarters-subsidary perception gap study, although most of the literature did not distinguish between expatriate managers and HCN managers when it examined headquarters-subsidary perception gaps. There are two reasons why expatriates and HCN managers should be treated differently and why this headquarters-subsidary perception gap study should initially focus on the gaps between headquarters managers and HCN managers. One is that expatriate managers and HCN managers have a different understanding about headquarters and the local environment, and in this regard the

perceptions of expatriates are in many cases somewhere between those of headquarters and HCN managers. The other reason is that HCN managers take initiatives as drivers of business execution in TTC foreign subsidiaries.

It is well known that expatriate managers often face 'dual organisational identification (DOI)' (Vora et al., 2007: 328) and find 'themselves torn between their allegiance to the parent company and their allegiance to the local foreign operation' (Black & Gregersen, 1992: 61). TTC expatriate managers also face DOI in strategic issues and daily operations. Since it depends on each expatriate as to where they position themselves between headquarters and subsidiaries, headquarters-subsidiary perception gaps can be best clarified by examining the gaps between headquarters and HCN managers. An HCN manager said:

'Some expatriates position their opinions closer to those of headquarters and other expatriates position their opinions closer to those of local requirements. I am afraid headquarters managers may find it difficult to grasp the real position of local voices. At the same time, we HCN managers may also misunderstand the real intention of headquarters.'

An expatriate manager confessed to an ambivalent position as follows:

'While we try to understand the local situations, we also need to reflect the intentions from headquarters. Therefore, we feel ambivalent when there are any perception gaps between headquarters and local people.'

Other expatriate managers commented that they intentionally position themselves midway between the headquarters' position and the subsidiary's position. For example:

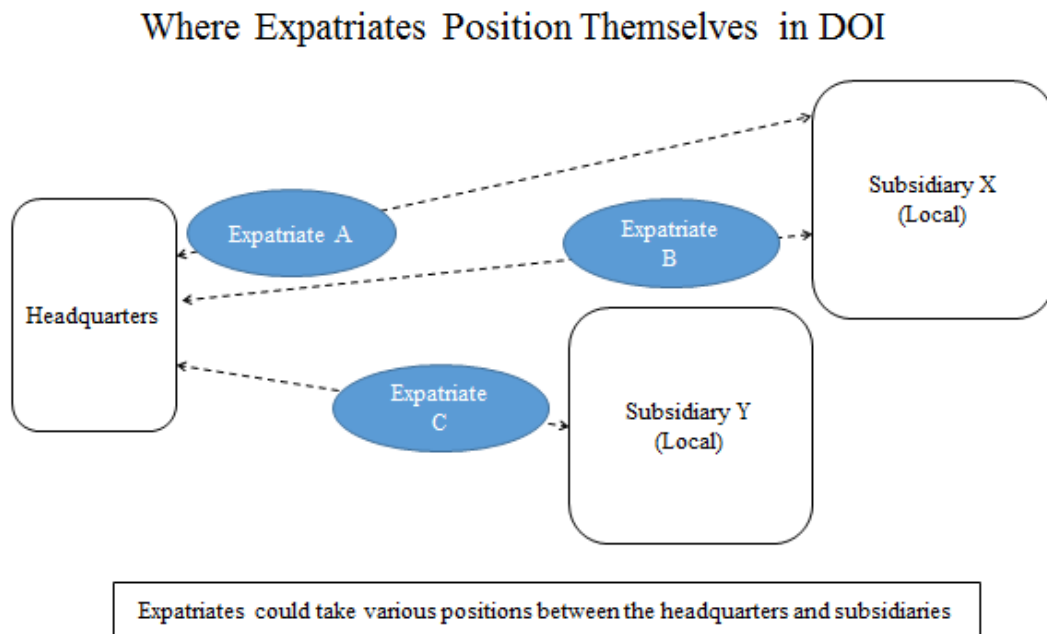
'... as an intermediary, I intentionally position myself in-between the headquarters and subsidiary. However, it is quite difficult to judge where I am positioning myself objectively in reality.'

Some expatriate managers take a closer position to HCN managers while others take a closer position to headquarters managers. As shown in Figure 5-1, the position of subsidiary X is more distant than that of subsidiary Y. If headquarters receives input from expatriate manager A, who has a closer position to headquarters, and expatriate manager C, who has a closer position to the subsidiary, then the headquarters manager may perceive that subsidiary X has a closer position than subsidiary Y to the headquarters position. As the prior comments have shown, it is not easy for expatriate managers to judge where they are positioning themselves. For example, if there are two subsidiaries

and subsidiary X has a more promising new project than subsidiary Y, an expatriate manager of subsidiary Y may position him/herself closer to the subsidiary and emphasise the attractiveness of the new project in subsidiary Y. However, an expatriate manager of subsidiary X may position him/herself naturally and just communicate the advantages and disadvantages of the new subsidiary X project. Thus, it may be difficult for headquarters managers to make a fair judgment. Moreover, in many cases, expatriate managers do not realise whether they are positioning themselves closer to subsidiaries or closer to headquarters. Thus, it is more accurate to measure perception gaps between headquarters managers and HCN managers in order to examine headquarters-subsidary perception gaps.

Most HCN managers are well trained in business operations and exert a key influence on the strategy of subsidiary business units. Emphasising execution also synchronises with the recently developed 'strategy-as-practice' approach (Jarzabkowski, Balogun, & Seidl, 2007; Whittington, 2006).

**Figure 5-1: Positioning of expatriates in dual organisational identification**



Since TTC has an 'NS-KA (transfer of power to HCN managers)' policy, a significant portion of business in foreign subsidiaries, particularly most existing business, is managed and executed by HCN managers. In the past few years, TTC has also begun to shift power to HCN managers regarding new business development. An expatriate manager commented as follows:

'One of our key organisational policies in recent years has been the "Transfer of power to national staff" and we have entrusted HCN managers with the daily operation of existing business. The majority of senior HCN managers have more than 10 years' experience at TTC, so their knowledge and skill level is something



comparable to that of headquarters. They also understand our corporate culture quite well. Moreover, they know the market and industry much better than us expatriates.'

HCN managers agreed with the NS-KA in general; however, it seemed that the level of NS-KA depends on the maturity level of the region and business unit. An HCN manager commented as follows:

'Because of the Japanese human resources management system, most of the expatriates have to leave this subsidiary every three years on average. It usually takes more than one year to learn about the local market and establish local networks. Therefore, we need to initiate the local business comprehensively from sales to delivery operations. In the past, there were many Japanese expatriates as our Japanese customers here and we needed expatriate managers as the customer interface. Even our Japanese customers are getting more and more localised these days, and in many cases the counterparts of our Japanese customers are local people. Therefore we have to take more initiatives in the local business here.'

While appreciating the NS-KA movement, other HCN managers showed concerns about further transfers of power to local managers. For example:

'While I am not sure if we could manage a further transfer of power to HCN managers, I believe our business operations correspond to local needs quite well now, since we have more autonomy than we had five years ago.'

While it is true that expatriate managers are transferring knowledge from headquarters to subsidiaries and having a varied influence on subsidiaries, such managers are also significantly influenced by HCN managers. An expatriate manager even said:

'I assume I am receiving more influence from HCN managers than I influence them. Actually, most of the local information comes from HCN managers and staff and the operation is mainly managed and carried out by HCN managers. I sometimes realise my way of thinking is localised when I go back to Japan on a business trip.'

Thus, HCN managers also have a significant influence on subsidiaries' strategy formulation. Further, it seems that expatriate managers and HCN managers mutually influence each other. On the one hand, expatriate managers transfer strategy from headquarters to HCN managers; on the other, expatriate managers receive local insights on strategy from HCN managers, insights which are sometimes transferred to headquarters managers. Since a company needs to share context with customers in order

to develop a new value (Ono, Fujikawa, Akutsu, & Haga, 2013), HCN managers could also have a significant role in new business development in the local market.

Although HCN managers are occasionally mentioned in the literature (Caprar, 2011), in the case interviews, I observed that HCN managers play key roles in both execution and strategy formation in foreign subsidiary business units. I also found that focusing only on expatriate managers is sometimes a misleading approach to acquiring an understanding of local realities because the ways in which expatriate managers position themselves between headquarters and subsidiary realities are not constant. Thus, it seemed appropriate that this headquarters-subsidiary perception gap study should initially focus on the perceptions of headquarters and HCN managers in order to clarify the real local situation.

### ***5.1.2 Second finding: subsidiary role dimensions and outcomes***

The second finding concerns the ways in which TTC managers view subsidiary role dimensions and the outcomes arising from the headquarters-subsidiary perception gaps regarding subsidiary roles. Among the varieties of subsidiary role dimensions, TTC managers regard the strategic market importance of the local environment and subsidiary capability as key subsidiary roles. In this context, the consequences of perception gaps

differ according to the type of subsidiary role. TTC managers said that headquarters control, headquarters support, HCN managers' motivation and entrepreneurship, and knowledge and information flow between headquarters and subsidiaries are influenced by these role perceptions but in a quite complex way.

At the beginning of the interviews, it appeared that according to the perception of subsidiary roles, such roles and outcomes were too complex to make categorisations or generalisations. Most TTC managers said that they were not sure which of their perceptions influenced particular actions. However, the accumulated interviews and interview coding clarified to some extent what TTC managers regard as subsidiary roles and what they regard as the consequences of perception gaps on subsidiary roles. TTC managers said that they often make decisions based on their perceptions about the importance of the local market, local innovation potential, the capabilities of the local organisation, and headquarters-subsidary information flow, among other issues. Thus, the following items could be categorised as subsidiary roles: the strategic importance of the local market, subsidiary capability, and knowledge/information flow.

While perceptions about these factors are somewhat positioned as inputs, TTC managers regard headquarters support, headquarters control, the willingness to share knowledge and information with each other, HCN managers' motivation and

entrepreneurship, HCN managers' willingness to learn from headquarters, and headquarters-subsidiary information flow as outcomes or consequences of perceptions about subsidiary roles. Some typical comments from TTC managers are as follows:

'I may upgrade my support if I find good potential in the local market' (headquarters manager).

'I added extra investment to the local operation since it could become a logistics hub in the region' (headquarters manager).

'Since the operational response is a bit slow in subsidiary C, I intervene more frequently in its operational communications' (headquarters manager).

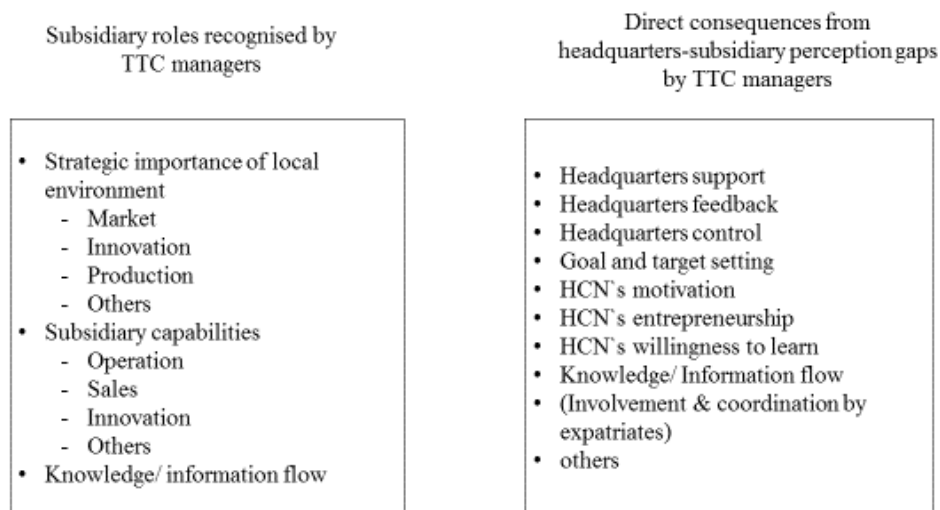
'My team members are demotivated because of the unnecessary intervention by headquarters and overwhelming reporting' (HCN manager).

'The HCN manager exercised significant entrepreneurship for the project, maybe because he had good autonomy' (expatriate manager).

Figure 5-2 provides details of subsidiary roles and the consequences of perception gaps on such roles for TTC managers. I also found some different consequences according to the subsidiary roles and the TTC managers' perception gaps. For example,

the consequences of perception on the strategic importance of the local market and the consequences of subsidiary capability do not appear to be exactly the same for TTC managers.

**Figure 5-2: Subsidiary roles and the consequences of perception gaps on subsidiary roles for TTC managers**



Quite a number of headquarters managers mentioned that the ways in which they provide support to subsidiaries and set targets for subsidiary SBUs are influenced more by the perception of the strategic importance of the local environment than subsidiary capabilities. For example:

'While it really depends on the situation, when we recognise a certain region has a potential customer who could be our testimonial customer, we will pay special attention to that local unit so that they could approach that customer, even when the local managers do not realise the importance of the particular customer. Of course, we will explain the meaning of the potential testimonial customer, but it seems that local managers sometimes do not fully understand how to position the customer in the global context. Regarding the capability of HCN managers, since it seems most of them reach the minimum required level, I do not change my approach to them a great deal according to how I evaluate their capabilities.'

Other headquarters managers commented that the level of headquarters control over subsidiaries is influenced more by the perception of subsidiary capabilities. For example:

'The customers of this division are highly demanding and we really need to provide a quasi-perfect service. Therefore, I do care about the capabilities of local staff in the subsidiaries. I also want them to understand our way of doing things since our customers also expect a proper process. If I find any concerns regarding the capabilities or methods, and HCN managers are not fully aware of these, I may place tighter monitoring on their service delivery via expatriates.'

HCN managers also mentioned perception gaps regarding the strategic importance of the local environment and subsidiary capabilities. For example:

'I will not be demotivated so much when headquarters managers do not understand the potential of this region. However, I may be more frustrated if they do not appreciate our efforts and the potential of our organisation.'

Thus, the case interviews revealed what TTC managers consider subsidiary role factors and direct outcome factors of perception gaps regarding subsidiary roles. The case interviews also found that there are some differences about the consequences of perception gaps depending on the type of subsidiary role.

### ***5.1.3 Third finding: perception gap directionality and consequences***

The third finding is the different influences which are caused by perception gap directionality. Through the case interviews, I observed subsidiary overestimation type perception gaps and headquarters overestimation type perception gaps engender different consequences. The literature suggested that larger perception gaps lead to negative organisational effects, and that subsidiary overestimation type perception gaps in particular negatively influence headquarters-subsidary relationships. The literature also



showed some mixed observations about headquarters overestimation type perception gaps, but most studies suggested that headquarters overestimation does not positively influence the headquarters-subsidary relationship, at least in the short- to mid-term. However, TTC case interviews showed that subsidiary overestimation does not always negatively influence the headquarters-subsidary relationship and subsidiary performance. In some cases, both subsidiary overestimation and headquarters overestimation influence subsidiary performance positively. An HCN manager described the subsidiary overestimation situation as follows:

'We sometimes feel our division (headquarters) does not appreciate the potential of our local market as we do. So it does not provide extra support and investment to this area. However, we could manage a considerable portion of local business by ourselves and could improve the performance, since we know the market well and have the necessary local networks.'

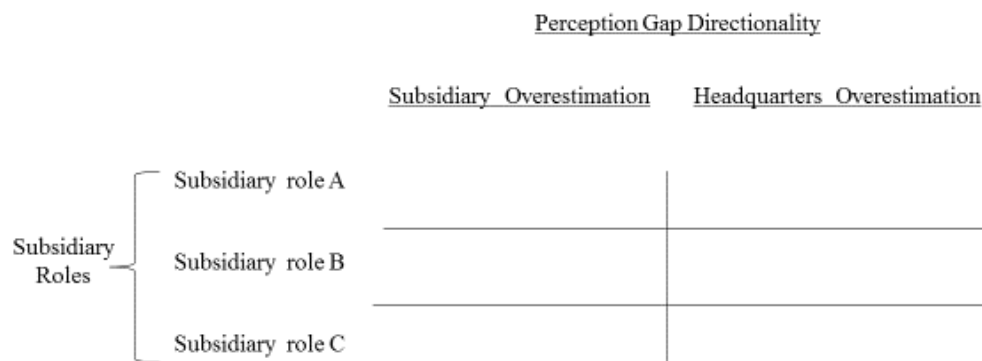
An expatriate manager in the same business unit described the headquarters overestimation situation as follows:

'Sometimes, headquarters of a certain division assign quite high business targets to the business unit here. We could manage if local members had some available

capacity remaining. However, in many cases, local members are already working to the best of their capacities. In such times, some of them are demotivated.'

As described in the interview comment above, I observed various cases in which subsidiary overestimation and headquarters overestimation showed different consequences in the same business unit. In a prior finding, I have already mentioned that the consequences of perception gaps also differ according to the type of subsidiary role. Based on these two findings, it may be a natural outcome to rearrange the headquarters-subsidiary perception gap by integrating subsidiary role types and perception gap directionality into the preliminary framework, as shown in Figure 5-3.

**Figure 5-3: Preliminary framework for perception gap directionality and subsidiary roles**



**5.1.4 Fourth finding: The link between perception gap outcomes and determinants of subsidiary performance**

I also asked participants for the determinants of subsidiary performance. TTC managers agreed on most of the determinant factors summarised in Table 2-4 in Section 2.4.1. I also found what TTC managers regarded as outcomes from headquarters-subsidiary perception gaps and summarised these in Figure 5-4. The determinants of subsidiary performance suggested in the literature and the outcomes of perception gaps listed by TTC managers clearly overlap.

**Figure 5-4: Outcomes from perception gaps (from the interviews) and determinants of subsidiary performance (from the literature)**

Direct outcomes from headquarters-subsidiary perception gaps	Determinants of subsidiary performance (organisation related factors)	
<ul style="list-style-type: none"> <li>• Headquarters support</li> <li>• Headquarters feedback</li> <li>• Headquarters control</li> <li>• HCN's motivation</li> <li>• HCN's entrepreneurship</li> <li>• HCN's willingness to learn</li> <li>• Information flow</li> <li>• (Involvement &amp; coordination by expatriates)</li> </ul>	Entrepreneurship associated with subsidiary initiatives	Birkinshaw et al., 2005
	Parent firms' entry -specific experience, exporting experience, subsidiary experience	Gao et al., 2008
	Increase in both the internal compatibility of their networks and their external compatibility with other network	Bartlett and Ghoshal, 1989
	Differentiate the structure of headquarter-subsidiary relations to fit the context of subsidiary	Nohria & Ghoshal 1994
	Building shared values across headquarters and subsidiaries	Nohria & Ghoshal 1994
	Possession of firm-specific advantage through knowledge transfer	Caves, 1996, Dunning 1994
	Headquarter- subsidiary collaboration	Birkinshaw et al., 2000
	Relational embeddedness (technical and business) in external networks of local environment	Ulf et al., 2002

The reasonable overlap between the direct outcomes of headquarters-subsidiary perception gaps and the determinants of subsidiary performance suggest that it may be worth examining the relationship between perception gaps and subsidiary performance.

**5.1.5 Fifth finding: different dynamisms between existing and new business in subsidiaries**

The fifth finding is the different factors and their dynamisms which affect existing business performance and new business performance in subsidiary business units. Most TTC managers mentioned the difference in requirements and the relationships among the requirements for existing and new business. As summarised in Table 5-3, almost all the strategic business units interviewed had existing business and new business activities.

**Table 5-3: Subsidiary business units with both existing and new business**

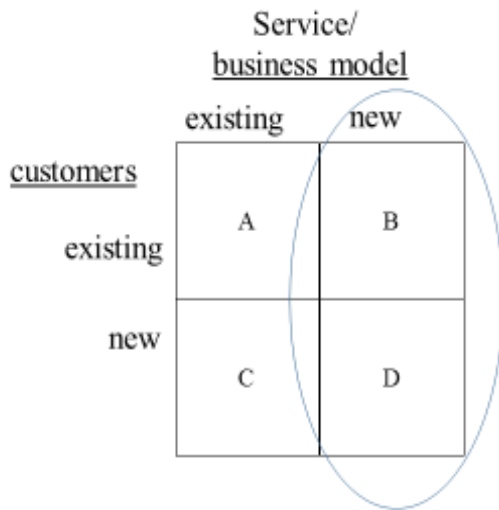
Those with both present business and new business development activities						
	US	Thailand	EU	China	Singapore	Inodnesia
Metals	○	○	○	○	NA	○
Metals	○	○	○	○	○	○
Global Parts & Logistics	○	○	○	○	○	NA
Automotive	○	○	○	○	NA	○
Machinery, Energy & Projects	○	○	○	○	○	○
Chemicals & Electronics	○	○	○	○	○	○
Food & Agriculture	NA	○	NA	○	○	○
Consumer Products & Services	NA	NA	NA	NA	NA	NA

The definitions of existing business development and new business development are fairly consistent within TTC. Cultivating new customers with current services or current business models is categorised as existing business, and developing new services or business models is categorised as new business development. It seems that TTC distinguishes existing and new business according to the product/service dimension of the Ansoff matrix (Ansoff, 1965) and not by customer dimension. One of the TTC managers made a comment to which most of his colleagues agreed:

'TTC is quite good at transferring a successful model from Japan to foreign subsidiaries and applying the service to current customers in subsidiaries. We call this process *yokoten*. These days we are supposed to develop new business; this means we need to develop a new business model. In my business unit, new business models mean not just an arbitrage model but something new.'

Figure 5-5 illustrates the definition of new business used by most of the TTC managers.

**Figure 5-5: Definition of new business in TTC**



' We are quite good at Yokoten (transferring successful business model to another country) and have grown dramatically in 2000s. However we need a new business model. So we regard new business with some new model as new business development.'

TTC manager

The managers also emphasised the differences between existing business and new business from various aspects. One of several expatriate managers said:

'Our existing business is quite routinised. However, this does not mean that realising high performance with existing business is easy. Since the operational process is quite structured, if we want to change something, we need to make a great effort to coordinate all the stakeholders. New business has different types of difficulties, since we do not have standard know-how.'

Table 5-4 summarises the differences between existing business and new business in terms of the knowledge level of headquarters managers about the local business environment, the capability of headquarters managers to support the local business, the routine level of business processes, and other key factors.

**Table 5-4: Differences of business environment in TTC regarding existing and new business**

	Difference of business environment in TTC regarding present and new business	
	Present business	New business
Knowledge of HQ manager about business environment of foreign subsidiary	Quite knowledgeable including the situation about local partners and customers	Usually the knowledge are limited comparing to that of present business
Capability of HQ managers to support subsidiaries	Highly capable	Low to middle : Under development
Level of know-how/ Knowledge transfer from HQ to Subsidiary	High:	Low to middle
Business process	Quite routinised	No established method or routine
HCN managers	Most HCN managers has relatively longer experience at TTC	Mixture of managers with long experience in TTC and mid-career employment

The findings regarding the differences between existing business and new business suggest that it may be better to examine the relationship between perception gaps and subsidiary performance in terms of existing business performance and new business performance. The ways in which existing theories consider the differences between present and new business are discussed in Chapter 6, Theory Development.

*5.1.6 Sixth finding: differences in expatriate coordination and coordination via HCN managers*

The sixth finding is the importance of expatriate coordination, especially coordination via HCN managers in the context of the headquarters-subsidary relationship. Various studies have considered what the expectations are of expatriates, how expatriates could adapt to the local environment, and how they could influence the numbers or ratio of expatriates with regard to subsidiary performance. However, the ways in which expatriates behave and the influence of expatriate behaviour on subsidiary performance have not been studied in quantitative and qualitative detail. The literature has often regarded expatriate coordination as a means of headquarters control over subsidiaries (Edström & Galbraith, 1977); however, the case interviews showed that expatriate coordination has greater variety. In this regard, several experienced HCN managers mentioned expatriate coordination with headquarters. For example:

'In the past, we learned how to do business the TTC way from expatriates and most of the key decisions were made by expatriates. Expatriates told us what



headquarters wanted us to do. These days, we sometimes find expatriates coordinate with headquarters based on local requirements.'

Japanese MNCs have a tendency to use expatriates extensively (Shiraki, 2006).

TTC has expatriates and HCN managers in all of its subsidiary business units. In this regard, I found two types of expatriate coordination: coordination by expatriates themselves and coordination via HCN managers.

Almost all the expatriate managers regard coordination as part of their main role and adopt a coordination role to some extent when necessary. They coordinate not only by themselves but also via HCN managers. Expatriate managers also said that although utilisation of HCN managers has a corporate-wide general consensus in TTC, they use HCN managers selectively. For example:

'Traditionally, expatriates took care of knowledge transfer, local organisational management, business development, troubleshooting, and coordination with headquarters. However, we are trying to utilise local managers as much as possible, even in coordination, for two reasons. One is the transfer of power to local policy as is often mentioned, and the other is that the recent rapid expansion of the business sometimes exceeds the capacity of expatriates. Therefore, we intentionally utilise local (HCN) managers for coordination. Some experienced local managers can not

only coordinate the local organisation but also communicate with headquarters managers quite properly. Of course, we monitor how the local managers coordinate with their local organisation or with headquarters. I will intervene if necessary.'

Other expatriate managers emphasised their capacity limitations in the use of HCN managers for coordination. For example:

'It is true that the role of expatriates in trading companies is quite diverse. We have an overwhelming volume of our own assignments and have to supervise the local organisation and communicate with headquarters at the same time. There are several HCN managers who can manage not only their own assignments but are also capable enough to take on a coordination role. I ask HCN managers for coordination only when I assume headquarters has a certain level of appreciation for the capabilities of local staff. Sometimes experienced HCN managers can explain a local project better than I can.'

However, expatriate coordination via HCN managers does not always work effectively. An expatriate general manager who observed several business units in a subsidiary mentioned the following:

'We have been trying to empower HCN employees over the past years. Consequently, we had several HCN employees promoted as managers or senior managers. These managers sometimes take care of coordination roles on behalf of expatriate managers. While most expatriate managers could coordinate with headquarters more or less satisfactorily, the effectiveness of coordination by HCN managers varies a lot.'

Some headquarters managers commented that they may change their opinions about HCN managers after communicating directly with them. For example:

'Honestly speaking, we have relatively few chances to know how capable HCN managers are and how much they understand our way of doing things. Our images of the local situation of our subsidiaries are often formed through indirect sources, usually via expatriates. Our image could be both overshoot and undershoot. We sometimes fine-tune our image of the local organisation when we have direct contact with HCN managers, especially in some unusual situations such as troubleshooting or new business development.'

Expatriates always have to be engaged with some kind of coordination within the local organisation and with headquarters and other regions. Since the majority of the manager-level expatriates are well trained for coordination, most of their coordination

reaches a satisfactory level of quality. However, it seems that the effectiveness of expatriate coordination via HCN managers is volatile.

## **5.2 Summary of the Interview Findings**

The findings from the interviews suggested that this study should: 1) focus on perception gaps between headquarters managers and HCN managers; 2) categorise perception gaps according to subsidiary role type and perception gap directionality; 3) examine these perception gaps with regard to existing business performance and new business performance; and 4) examine the impact of expatriate coordination, especially coordination via HCN managers. At the same time, the case interviews demonstrated the complexity of the dynamism among the consequences of perception gaps. This may be why most of the literature has 1) selected limited numbers of the consequences of perception gaps and 2) examined the immediate consequences of perception gaps but not directly examined performance.

TTC senior executives commented that if they are expected to prioritise, they would prefer to know how headquarters-subsidary perception gaps influence performance. One executive from the board of directors said:

'Since we need to leverage not only Japanese employees but also local resources, I am quite interested in what HCN managers and staff think about our strategy, their local markets, and resources. I know there must be quite a variety of complex issues caused by perception gaps; however, what we need to realise is our vision and targets, both short-term and long-term. So it will be highly beneficial to know how local perception gaps influence subsidiary performance.'

Since studies have already examined the direct outcomes from headquarters-subsidiary perception gaps and the strong demands from real business, the focus of my research is not on the detailed mechanism of direct outcomes from perception gaps or the potential influences of subsidiary performance; instead, it considers the relationship between headquarters-subsidiary perception gaps and subsidiary business unit performance. This means that although I will discuss the mechanism of direct outcomes from perception gaps or the potential influences of subsidiary performance in the theory development process, the key objective is not to clarify the process but to clarify the relationship between headquarters-subsidiary perception gaps and subsidiary business unit performance.

I had additional findings through the interviews with the 134 managers which I have not mentioned in this section. Some of these will be reflected in the theory development in Chapter 6 and the analysis in Chapter 8.



## **6 THEORY DEVELOPMENT**

In this chapter, several hypotheses are developed based on relevant theories and case study interviews. The first four hypotheses concern the influence of perception gaps between headquarters and HCN managers on foreign subsidiary business unit performance. Of these four hypotheses, Hypothesis 1 and Hypothesis 3 focus on the influence of perception gaps on existing business performance while Hypothesis 2 and Hypothesis 4 focus on new business performance in foreign subsidiary business units. These hypotheses separate subsidiary roles into the strategic importance of the subsidiary's local environment and subsidiary capabilities and then apply the perception gap directionality concept. A further two hypotheses follow. In Hypothesis 5 and Hypothesis 6, the moderation effects of expatriate coordination via HCN managers on the relationship between perception gaps and subsidiary business unit performance are proposed.

Before developing the hypotheses, I discuss each key variable. I consider perception gaps as independent variables and subsidiary business unit performance as a dependent variable. I also consider subsidiary roles as objects of perception gaps and discuss what should be included in the unit of analysis. I then examine expatriate coordination as a moderator before developing Hypothesis 5 and Hypothesis 6.

The unit of analysis of the present study is the subsidiary business unit. Since I am going to observe perception gaps between headquarters and subsidiary business units, key components of the unit of analysis are headquarters managers and subsidiary managers. While most literature on headquarters-subsidiary perception gaps and subsidiary roles has not separated the elements within a subsidiary business unit, I suggest that a subsidiary business unit could be composed of expatriates, HCN employees, and third-country employees. In this regard, as discussed in the first case interview finding, the present study focuses on perception gaps between headquarters managers and HCN managers.

### **6.1 Independent Variables: Perception Gaps regarding Subsidiary Roles**

This study examines the influence of headquarters-subsidiary perception gaps on subsidiary roles. Since IB scholars have proposed various subsidiary role typologies and have not reached unanimous agreement, I need to define the subsidiary role dimension which is applied to the present study.

The open system approach defines a subsidiary role as a set of behaviours which is related to the position which a subsidiary occupies within the MNC (Katz & Kahn, 1978). Subsidiary managers and headquarters managers have a certain idea of this set of



behaviours. In role theory, subsidiaries are regarded as the role occupants while headquarters represents the subsidiaries' role set (Jones & Deckro, 1993). The theory suggests that role occupants and members of the role set may have different perceptions of the role occupants' role and consequently differing expectations regarding related role behaviours (Kahn & Quinn, 1970).

### ***6.1.1 Approach to the subsidiary role***

The independent variables are the perception gaps regarding subsidiary roles. Moreover, there are various subsidiary role typologies, as summarised in Chapter 2. Thus, I need to clarify which subsidiary role typology is applied in the present study. Although the literature review in Chapter 2 confirmed that no subsidiary typology has so far met with unanimous approval, this study does not develop additional new subsidiary typologies; instead, I utilise studies which are appropriate for an examination of my research questions. Since subsidiary role is a key construct of the research questions, the typology should be selected not only from a practical perspective but also from a theoretical perspective. With regard to the latter, the following three criteria were applied in order to select the subsidiary role typologies which are listed in Table 2-1 (Daniel, 2010).

First, subsidiary role typologies which focus on specific industries were omitted.

Those of Vereecke, van Dierdonck, and de Meyer (2006), which focus on the manufacturing industry, were discarded. Surlemont's typology, which concentrates on world product mandate type subsidiaries, was also removed (Surlemont, 1998). In addition, Schmid and Daub's (2005) typology was omitted because of its focus on offshore service subsidiaries (Schmid & Daub, 2005). The remaining typologies do not specify a certain type of subsidiary.

Second, the typology should have an impact on IB research conceptually and empirically. Three typologies showed a significant contribution in this area: a) market scope, product scope, and value-added scope dimension; b) the strategic importance of the local environment dimension and the competence of the local organisation dimension; and c) the intra-corporate knowledge flow dimension. The dimension of market scope, product scope, and value-added scope as a subsidiary role typology was initially suggested by White and Poynter (1984) and adopted by other authors such as Birkinshaw and Morrison (1995) and Tavares and Young (2006). This typology assumes that the business strategies pursued by foreign-owned subsidiaries fall into five broad categories according to the three dimensions of market scope, product scope, and value-added scope. Market scope is the range of geographic market available to a subsidiary while product scope is the latitude exercised by a subsidiary's business with regard to product line

extensions and new product areas. Value-added scope refers to the range of ways in which a subsidiary adds value, whether through development, manufacturing, or marketing activities (White & Poynter, 1984).

Bartlett and Ghoshal (1991) introduced a new type of international organisation, the transnational company. In this context, the dimensions of the strategic importance of the local environment and the competence of the local organisation should be considered within the larger framework of a transnational company.

Intra-corporate knowledge flow is regarded as one of the key sources of competitive advantage in the international arena. Thus, subsidiary role typology using the intra-corporate knowledge flow dimension has attracted increasing attention in IB research (Gupta & Govindarajan, 1991, 1994).

The three typologies have been tested empirically. Young, Hood, and Dunlop (1988) tested market scope; Furu (2001) tested Bartlett and Ghoshal's (1991) typology; and Harzing and Noorderhaven (2006) tested intra-corporate knowledge.

Third, since the aim of this study is to examine the perception of subsidiary roles by headquarters and subsidiary managers, the dimensions of the subsidiary role typologies should not be objectively measurable but interpreted subjectively. Of the dimensions of the remaining three typologies, b) the strategic importance of the local

environment dimension and competence of the local organisation dimension, and c) the intra-corporate knowledge flow dimension can be classified as subjective (Arvidsson, 1999). The strategic importance of the local environment dimension may seem relatively objective; however, market importance is a complex concept and cannot be determined only by the size of the market. Subsidiary capability is also difficult to determine objectively because its development is a cross-interaction process between knowledge transfer from the home country and the subsidiary's foreign position in the host country market (Edman, 2009).

The attributes related to the dimension of market scope, product scope, and value-added scope are relatively objective in theory, and the degree to which these dimensions depend on individual perception is considerably lower than that of knowledge flow and capabilities. Based on these criteria, the importance of subsidiary environment, subsidiary capabilities, and the inflow and outflow of knowledge are listed as subsidiary dimensions from the theoretical point of view.

This selection approach may be criticised for not being comprehensive enough and because the subsidiary role dimensions which are presented in the literature are not commonly reflected in business practice; that is, the classification of subsidiaries according to the different roles cannot be observed in real-time MNC management.

However, I also applied the findings from the case interviews to subsidiary role selection.

The TTC case interviews suggested that MNC managers find it natural to include the strategic importance of the local environment, subsidiary capability, and knowledge/information flow as subsidiary roles. However, I found that applying knowledge inflow and outflow as a subsidiary role in the perception gap survey was problematic. This was because quite a number of managers had difficulty in positioning knowledge inflow and outflow as a subsidiary role. As discussed in Chapter 2, knowledge and information flow appear as input, object, and output (consequences) in the headquarters-subsidiary relationship (also see Figure 5-2). Since this multifaceted nature of knowledge flow may cause confusion among the large numbers involved in a quantitative survey, I decided to omit knowledge flow as a subsidiary role.

Thus, the strategic importance of the local environment and subsidiary capabilities were selected as the subsidiary roles applied to the theory.

### ***6.1.2 Strategic importance of subsidiary environment as a key subsidiary role***

Overall, the strategic importance of the local environment is the principal strategic consideration of a company's global strategy (Bartlett & Ghoshal, 1998). While a large market is obviously important, so is a competitor's home market or a market which is

particularly sophisticated or technologically advanced (Bartlett & Ghoshal, 1986). Indeed, TTC managers agreed that the market factor is one of the key factors to define the strategic importance of the local environment. For example, one mentioned the market's 'attractiveness as a production base, access to scarce resources, a source of innovation, and geographical accessibility'.

Different standpoints and information sources between headquarters managers and subsidiary HCN managers often lead to a perception gap about the local environment where the subsidiary business unit operates. Headquarters managers are supposed to be responsible for global or regional environments and coordinate the diverse business units of MNCs. On the other hand, subsidiary HCN managers are supposed to focus on the local environments to which they belong. Because of their more intense involvement in a local market, HCN managers know much more about the market than headquarters managers. Moreover, HCN managers may see opportunities which are not perceived by headquarters managers (Birkinshaw, Hood, & Young, 2005; Prashantham & McNaughton, 2006). Because of these differences in standpoint between headquarters managers and HCN managers, both sides may attach different strategic importance to the local market.

The case interviews suggested that headquarters managers could both overvalue

and undervalue the strategic importance of the local environment. Headquarters managers mentioned that the time lag associated with macro data may lead to perception gaps about the strategic importance of the local environment. An expatriate manager in an emerging market commented:

'I sometimes find headquarters managers of certain business divisions overvalue the potential of this local market compared to the valuation by HCN managers. I am not sure which is correct. My view on this market has changed from what I had when I was working at headquarters in Japan and what I have now. What I found was that geographical distance may lead to overshooting the headquarters perception of the local environment both positively and negatively.'

Headquarters managers and HCN managers may have different opinions about the strategic importance of the local environment because they emphasise different factors. While headquarters managers regard a subsidiary business unit as a base of production or distribution, HCN managers may view it as a way of finding new market opportunities.

### ***6.1.3 Subsidiary capability as a key subsidiary role***

The other dimension of subsidiary roles is subsidiary capability. While headquarters

managers admitted that the way in which they perceive the capability of HCN managers and staff influences the relationships between headquarters and subsidiaries, it is quite difficult to judge the capabilities of human resources abroad. For instance, TTC does not currently have a systematic tool or method to evaluate the capabilities of local employees objectively. Headquarters managers evaluate the capabilities of local employees in various ways which include not only business output but also the communication process. Under a high context culture, a communication or message is one in which the information is already with a person, while very little is coded, explicit, or the transmitted part of a message. Thus, communication in a high context culture is economical and efficient. Japanese companies, which have extensive information networks among stakeholders, are high context (Hall, 1976).

Although not clearly mentioned in the interviews, I observed that when information flows from headquarters to subsidiaries, headquarters managers have a tendency to place a higher value on the capabilities of foreign employees who can communicate in a high context manner and place a lower value on the capabilities of foreign employees who require low context communication styles. On the other hand, headquarters managers tend to evaluate local capabilities higher when local employees communicate with headquarters in a high context manner, and lower when local



information is communicated in a low context manner (i.e. coded explicitly).

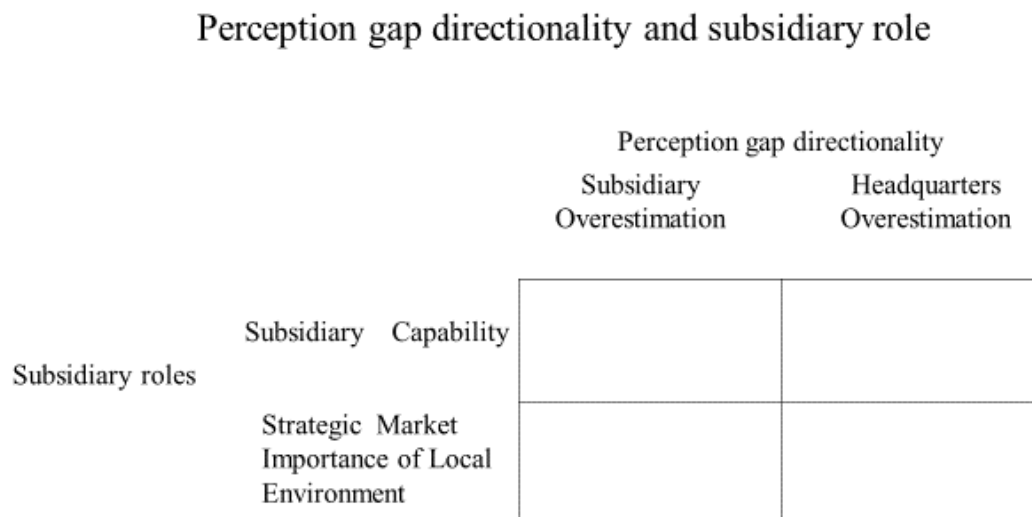
During the case interviews, I also found that quite a few headquarters managers and expatriate managers implicitly regard corporate culture, such as team orientation, consensus, and process orientation, as part of subsidiary capabilities. If an HCN manager knows the business well and has a high level of competency but the headquarters manager does not believe that his/her way of behaviour or process management fits the corporate culture, any recognition by the headquarters manager of the HCN manager's capability may be discounted. In contrast, if an HCN manager behaves in a way which headquarters managers perceive to be right for TTC, the perceived capabilities of the HCN manager could be upgraded. .

#### ***6.1.4 Perception gap directionality and consequences of perception gaps***

The perception gap is a complex concept and sometimes underestimation and overestimation can be regarded as two sides of a coin. If a subsidiary claims that 'headquarters underestimates our market potential', headquarters may reply that the 'subsidiary is overestimating the local market potential'. Thus, Birkinshaw et al. (2000) clarified perception gap directionality as subsidiary role overestimation and headquarters role overestimation, concepts which were initially proposed by Arvidsson (1999) as

positive and negative perception gaps. However, the literature has not clearly stated whether the consequences of perception gaps differ according to perception gap directionality. As I mentioned in Chapter 5, I have found various cases which show that subsidiary overestimation and headquarters overestimation cause different consequences. Based on the discussions of the independent variables in this chapter, especially the clarification of the subsidiary role to be applied in this study, I realigned the preliminary framework presented in Chapter 5 as Figure 5-3 as a general framework for the dependent variables (see Figure 6-1).

**Figure 6-1: Framework for perception gap directionality and subsidiary roles**



Most of the literature suggested that subsidiary overestimation may negatively influence headquarters-subsidary relationships and did not clearly mention the influence of headquarters overestimation. If I apply the literature to this framework, the result can be summarised as Figure 6-2.

**Figure 6-2: Consequences of perception gaps and the subsidiary role framework applied to the literature**

**Perception gap directionality and subsidiary role  
(summary of existing literature)**

		Perception gap directionality	
		Subsidiary overestimation	Headquarter overestimation
Subsidiary roles	Strategic market importance of local environment	<ul style="list-style-type: none"> <li>- Tighter headquarter control</li> <li>- Poor HQ-subsidary coordination by tighter HQ control (Birkinshaw et al., 2000)</li> </ul>	<ul style="list-style-type: none"> <li>- Less headquarter control</li> <li>- Not disturbed HQ-subsidary coordination (Birkinshaw et al., 2000)</li> </ul>
	Subsidiary capability	<ul style="list-style-type: none"> <li>- Unsuccessful knowledge transfer (Arvidsson, 1999)</li> <li>- Reluctance to learn from others (Arvidsson, 1999)</li> </ul>	<ul style="list-style-type: none"> <li>- Unwillingness of local to share their experiences (Arvidsson, 1999)</li> <li>- HQ to review their wrong strategy track through conflict (Arvidsson, 1999)</li> </ul>
	Others including: autonomy/information flow	<ul style="list-style-type: none"> <li>- Friction between HQ – subsidiary (Arvidsson, 1999)</li> <li>- Dissatisfaction of local employees (Asakawa, 2001, Chini et al., 2005)</li> </ul>	

## 6.2 Dependent Variable: Subsidiary Business Unit Performance

Subsidiary performance is a dependent variable in this study and is now discussed. Various factors have been proposed as key influencers or determinants of subsidiary performance such as entry specific experience (Gao et al., 2008); relational

embeddedness (technical and business) in external networks of the local environment (Andersson et al., 2002); knowledge sharing with headquarters and other subsidiaries (Bartlett & Ghoshal, 1989; Doz, Santos, & Williamson, 2001; Gupta & Govindarajan, 2000); entrepreneurship in MNCs associated with subsidiary 'initiatives' (Birkinshaw et al., 2005); and the constant possession of company-specific advantages including technological superiority over competitors (Dunning, 1988). These are summarised in Table 2-4 in Chapter 2. The reasonable overlap between the determinants of subsidiary performance from the literature and the consequences of perception gaps from the interviews are exhibited in Figure 5-4 in Chapter 5.

TTC managers also pointed out various factors as influencers of subsidiary performance. Most of these accord with the factors listed in the literature. The following factors are those mentioned as major influencers of subsidiary performance by TTC managers: 1) headquarters support, including financial resources, human resources, and knowledge, which are factors also suggested by Bartlett and Ghoshal (1989), Doz et al. (2001), and Gupta and Govindarajan (2000); 2) headquarters control, including the approval process, which was a factor suggested by Birkinshaw et al. (2000), Chini et al. (2005), and Daniel (2010); 3) the local environment, including the external network and business opportunities, which is a factor which accords with relational embeddedness in

the external networks of the local environment, as suggested by Andersson et al. (2002), and with external compatibility, as proposed by Bartlett and Ghoshal (1989) as a subsidiary performance requirement; and 4) the capability, motivation, and entrepreneurship of HCN managers and staff, which was also pointed out by Arvidsson (1999) and Birkinshaw et al. (2005).

Regarding subsidiary performance, TTC managers mentioned the different dynamisms between existing business and new business, as explained in Section 5.1.5. Chapter 5 also clarified the definition of existing business and new business according to TTC managers and examined the characteristics of existing business and new business from the TTC managers' perspective. To complement this, I now provide a brief review of how the literature described the difference between existing business and new business.

As summarised in the literature review, the literature suggested that the requirements for existing business and new business appear to be different in terms of organisational profiles and managers' profiles, and according to assumptions about industry definitions, organisational learning, and other factors (Ansoff, 1988; March, 1991; Kim & Mauborgne, 2005). Existing business requires stable or expanding organisational structures and organisational learning styles which are explorative. New

business requires a flexible organisation and an organisational learning style which is explorative (March, 1991).

Existing business development, in which companies develop their businesses by competing with existing products/services in the current market, is well represented by operating behaviour, which has a competitive mode. New business development, in which companies explore possibilities for growth with new products/services and/or new markets, is well represented by strategic behaviour, which has an entrepreneurial mode (Ansoff, 1965). The competitive mode in existing business includes attributes such as the high relevance of traditional capabilities; problem familiarity related to experience; direction of change which is a continuation of the past; the low cost of information; well-structured problems; and low-medium risks. The entrepreneurial mode in new business development includes attributes such as the low relevance of traditional capabilities; low problem familiarity; a discontinuous direction of change; the high cost of information; ill-structured problems; and medium-high risks (Ansoff, 1988).

Achieving high performance with existing business often means winning in terms of the current industry definition; however, achieving high performance with new business requires a new definition of industry borders (Abe & Ikegami, 2008). For example, blue ocean strategy provides a way to create a new uncontested market by

focusing on strategic moves (Kim & Mauborgne, 2005) and also suggests how the approaches used for competing in an existing market and creating a new market are different. Companies should also challenge two conventional strategy practices. One is the focus on existing customers and the other is the drive for finer segmentation to accommodate buyer differences (Kim & Mauborgne, 2005).

Although exploration and exploitation type or organisational learning are necessary for constant innovation, exploitation is often used to improve existing business and exploration is used for new business opportunities (Iriyama, 2012). Exploitation is a form of organisational learning which relies on more traditional proven methods of business which are suitable for driving existing business, while exploration is a form of organisational learning which adapts to change in the environment, an approach which is more suitable to drive new business. Exploration includes terms such as search, variation, risk-taking, experimentation, play, flexibility, discovery, and innovation. Exploitation includes refinement, choice, production, efficiency, selection, implementation, and execution (March, 1991). Thus, the literature has confirmed the different characteristics between existing business and new business. These include issues which must be challenged and organisational profiles (Ansoff, 1988), strategic action and paradigms (Kim & Mauborgne, 2005), and organisational learning (March, 1991). Table 6-1

summarises the different requirements of existing business and new business.

**Table 6-1: Difference of requirements between existing business and new business**

		Deifference of requirements		
		Present business	New business development	
Organisation profile				
	Organisational structure	1) Stable or expanding	1) Fluid, structurally changed	Ansoff 1988
		2) Activities grouped according to resource conversion process	2) Activities grouped according to problems	
		3) Activities loosely coupled	3) Activities loosely coupled	
	Reward and Penalty system	1) Reward for stability efficiency	1) Reward for creativity and initiative	
		2) Reward for past performance	2) Penalties for luck of initiative	
		3) Penalties for deviance		
Managers profiles				
	Personal values	Economic reward and power, stability, conformity	Economic reward and personal fulfilment, Change, Deviance	
	Skills	Experientially required, popular leader, participative, Goal-setter, Familiar problem-solver, Intuitive problem-solver, Familiar risk-taker, Convergent diagnostician, Performance controller, Extrapolative planner	Acquired throughout career, Charismatic and political leader, Political and charismatic, Vision-career, Novel problem-solver, Creative problem-solver, Novel risk-taker, Divergent diagnostician, Creative guide, Entrepreneurial planner	
	Approach to customers	Focus on the difference of current customers for segmentation and targeting	Focus on the commonality among non-customers (and current customers)	Kim & Mauborgne 2005
	Assumptions of strategic move	Industry border is fixed	Redefine the industry border	
	Organisational learning	Exploitation includes such things as refinement, choice, production, efficiency, selection, implementation, execution (March, 1991)	Exploration includes things captures by terms such as search, variation, risk taking, experimentation, play, flexibility, discovery, innovation	March, 1991

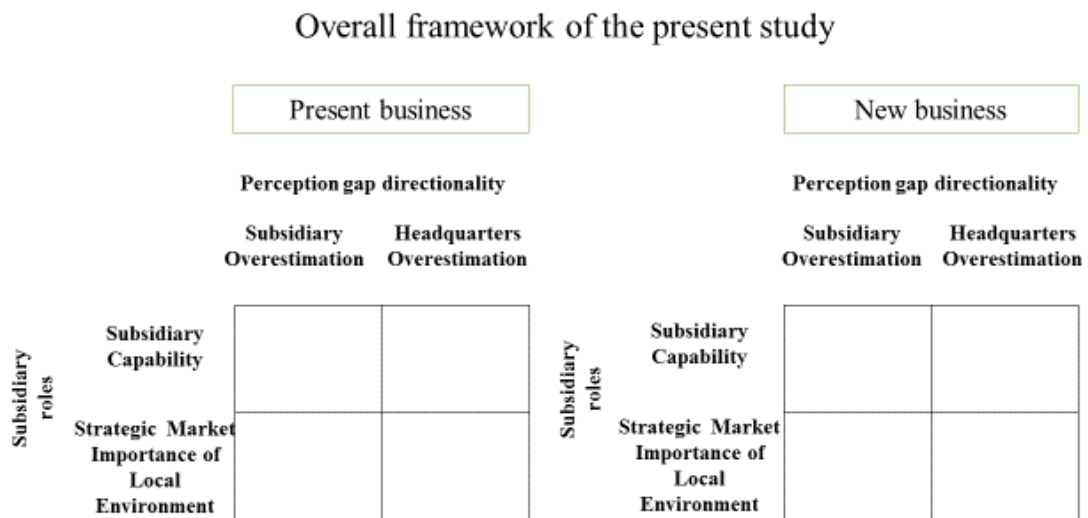
As shown in Table 6-1, there are various differences between the factors of existing business development and new business development. However, few studies have examined the differences between existing and new business performance in foreign subsidiaries. Although the case interviews suggested that the dynamism of the influence on headquarters-subsidary perception gaps differs between existing business and new business, the literature has not clearly stated whether the requirements for subsidiary



performance are different. This suggests that it may be worth examining the influence of perception gaps separately in terms of existing business and new business.

In the prior section, I developed a framework for independent variables by integrating subsidiary role and perception gap directionality. I will now apply this framework to existing business and new business respectively to develop a more comprehensive framework as illustrated in Figure 6-3.

**Figure 6-3: Overall framework of the study**



### **6.3 Hypotheses regarding the Influences of Perception Gaps on Subsidiary Business Unit Performance**

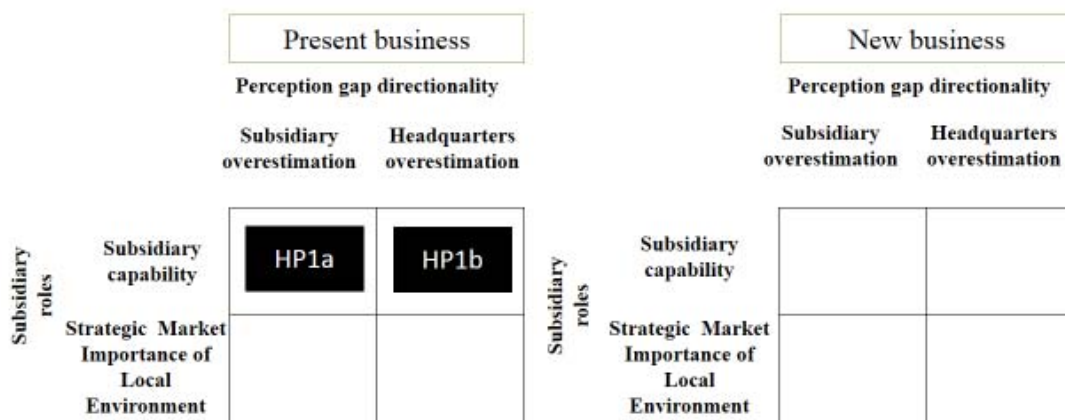
As reviewed in Chapter 2, the literature suggested that headquarters-subsidiary perception gaps regarding subsidiary capabilities disturb the knowledge and information flow between headquarters and subsidiaries and cause negative influences on subsidiary performance. For example, local managers may be reluctant to learn from others when there is subsidiary overestimation and reluctant to share their experience with others when there is headquarters overestimation (Arvidsson, 1999).

The case interviews found similar directions under some conditions and different directions under other conditions. It seems that the priorities and dynamism among outcomes from perception gaps differ according to perception gap directionality, subsidiary role type, and the type of business activities; that is, existing business or new business.

Although some studies have considered the dynamism of interaction between headquarters and subsidiaries (Bouquet & Birkinshaw, 2008), few have examined the dynamism and relationships between perception gap outcomes and subsidiary performance requirements. This section develops hypotheses by utilising existing theories and the case study interview data to illustrate the dynamism of the relationships

between perception gaps and subsidiary business performance. As shown in Figure 6-4, the hypotheses about headquarters-subsidiary perception gaps regarding subsidiary capabilities for existing business are developed first.

**Figure 6-4: Hypotheses 1a and 1b in the framework**



With regard to the consequences of subsidiary overestimation on subsidiary capability in existing business, the TTC interviews accorded with what is suggested by the literature. The following comment is typical of those about subsidiary overestimation between headquarters and HCN managers. A headquarters manager said:

'When we have a concern regarding the capabilities of local employees in executing existing business, we need to pay extra attention to the division. Since smooth and continuously running services are our core value, we will provide necessary support and have tighter monitoring.'

Most TTC managers aim to provide good support to foreign subsidiaries in order to enhance *kaizen* (continuous improvement) opportunities not only at headquarters but also at the subsidiaries' level. However, since these managers are too busy to listen carefully to all the local voices, they need to prioritise the issues to which they must react first. Subsidiary overestimation on subsidiary capabilities has a lot of influence on such prioritisation. As a headquarters manager said:

'While market importance is an important factor in prioritisation, trustworthiness is also a crucial factor in prioritisation. Even if a subsidiary business unit is quite capable, if we feel the HCN manager or staff overestimate their capabilities, we regard them as arrogant and not sufficiently trustworthy. We assume such a mindset may lead to some mistake. On the other hand, if a subsidiary unit is under development but has a humble mindset, then we may have relatively better trust and feel like providing more support.'

The following comment is a typical response from HCN managers working at a

business unit which has reached a certain establishment level or higher. Since these HCN managers assume that they have 'accumulated considerable experience and their local capabilities are good enough to satisfy local customers', they do not fully understand 'why we need to have extra consensus-building processes or preparation even when our customers are already satisfied'. In addition, an HCN manager said:

'I feel we are not treated sufficiently well by headquarters. We may not have enough resources when we need to submit too much information. Of course, we will always try to do our best; however, we will be demotivated if such a situation continues.'

In this context, an expatriate manager explained the difference between the perspectives of HCN managers and headquarters managers:

'HCN managers make decisions based on their communication with local customers. On the other hand, headquarters often thinks from a more comprehensive point of view. For example, if the local customer in a foreign subsidiary is a Japanese company, the Japanese headquarters or Japanese expatriate behind the local counterpart may be required to do more, even if the local counterpart shows satisfaction about what the TTC HCN managers are offering them. Since this kind of mismatch leads to lower performance of ongoing business, I have to intermediate the communication among these stakeholders.'

Although HCN managers who believe that headquarters managers underestimate them feel frustrated, the operation of the business may not be influenced to any great extent because the operational processes at TTC subsidiaries are quite routinised. However, in reality the surrounding environment and working conditions change constantly, even for ongoing business. For example, existing business has occasional irregular incidents, such as delays due to production line trouble and quality problems (Endo, 2014). Reactions to such irregular incidents need to be managed with high levels of efficiency and fluent communication. Since trust is difficult to build and too easily misunderstood (Mayer & Davis, 1999), headquarters-subsidiary communication with less trust makes only a slight difference. However, this slight difference makes a huge difference to the performance of existing business operations (Endo, 2014). An expatriate manager mentioned:

'Since our customers are highly demanding, we always need to realise top-level collaboration across the organisation. Even slight time lags, slight communication mismatches, create unacceptable outcomes.'

Subsidiary overestimation of subsidiary capability can be observed in subsidiary

units whose capabilities are high in terms of an absolute base, and in subsidiary units whose capabilities are low in terms of an absolute base. As subsidiaries develop their own resources, their dependence on headquarters reduces and their degree of freedom for undertaking autonomous action increases (Prahalad & Doz, 1981). A highly experienced HCN manager in a fairly well-established business unit said:

'I believe our capabilities are sometimes better than those of headquarters people. I assume headquarters managers at least regard our capabilities as good enough to entrust us with the operational management of existing business.'

An HCN manager who is in a unit regarded as less well-established by headquarters managers said:

'We know we still need to develop our capabilities further. At the same time, I assume our experience and capabilities have reached a reasonable level.'

Because of such confidence, HCN managers are highly frustrated if they feel that the control level is stronger than their expectations, even if the support level from headquarters has increased.

Expatriate managers explained that while the absolute level of subsidiary capabilities is important for execution, the 'gap' between how headquarters perceives such capabilities and the self-image of HCN managers is quite important for the headquarters-subsidary relationship. An expatriate manager said:

'HCN managers here are well experienced and more capable than HCN managers in subsidiary X where I was located before. Headquarters appreciates their capabilities and we have more autonomy than other subsidiary units. However, I assume the self-images of HCN managers here are higher than that of headquarters managers. Actually, some senior HCN managers have longer experience than young headquarters managers. So HCN managers here require more autonomy. Sometimes it is difficult to persuade HCN managers to follow the advice from headquarters.'

In the case interviews, I found that headquarters control, support, feedback, goal setting and subsidiary motivation, together with entrepreneurship, willingness to learn, willingness to share information, and headquarters-subsidary coordination are the factors which influence subsidiary performance. In this regard, one definition of control is a process which causes adherence to a goal or target through the exercise of power and authority (Etzioni, 1965). Such control can have both positive and negative connotations,

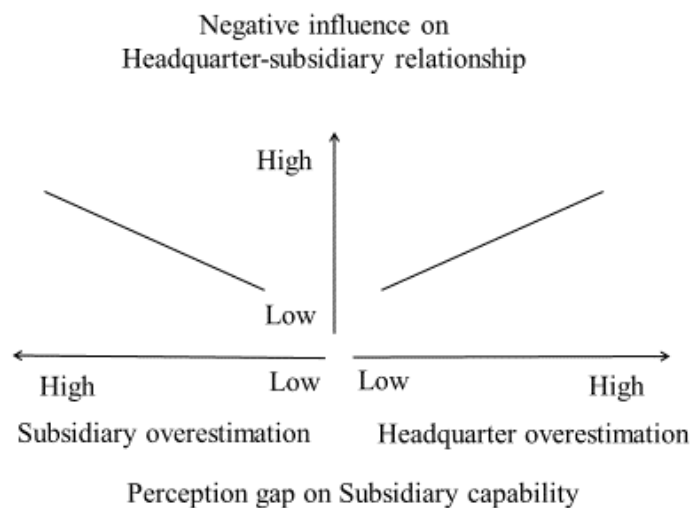


with the latter meaning that active headquarters control can be interpreted as a lack of trust in the ability of subsidiary managers to make sound judgments on their own (Birkinshaw et al., 2000). Thus, it seems that the negative dimension of headquarters control is related to subsidiary overestimation of subsidiary capability. When headquarters control is associated with a lack of trust, HCN managers are demotivated (Murasugi, 1985). Consequently, creating shared values across headquarters and subsidiaries (Nohria & Ghoshal, 1994), and the entrepreneurship associated with subsidiary initiatives (Birkinshaw et al., 2005), are key influencers of subsidiary performance. Although the literature presented various direct consequences of subsidiary overestimation and influencers of subsidiary performance, the case interviews suggested certain key connections among these direct consequences. The case interviews also showed how subsidiary overestimation of subsidiary performance negatively influences subsidiary business unit performance. These observations led to the hypothesis below, which shows a similar direction to that of the literature.

**Hypothesis 1a:** Subsidiary overestimation of the capability of HCN managers and staff negatively influences the existing business performance of foreign subsidiary business units.

The literature suggested that headquarters overestimation negatively influences the headquarters-subsidary relationship, although the impact may not be as bad as that of subsidiary overestimation. Further, some studies implied the possibility of a positive influence from headquarters overestimation (Arvidsson, 1999), but no quantitative surveys have examined this. Figure 6-5 provides a graphical explanation of what the literature has proposed.

**Figure 6-5: Graphical description of perception gap influence on subsidiary capability in the literature (1)**



However, the case interviews provided different perspectives. I observed

numerous remarks about headquarters overestimation of subsidiary capability having a positive influence on subsidiary performance with regard to existing business. I could not find examples of the unwillingness of locals to share their experiences, a circumstance which was highlighted as an outcome of headquarters overestimation of subsidiary performance in the literature (Arvidsson, 1999). Indeed, some literature suggested that perception gaps have positive aspects. For example, if a company is on the 'wrong' path, disagreement or perception gaps, and managerial conflict as a result of perception gaps, may reveal why; such conflict may also show the way in which the company could go instead (Arvidsson, 1999). This kind of strategy revision through healthy conflicts caused by perception gaps may be possible when headquarters appreciates the opinions of the subsidiary; that is, headquarters overestimates subsidiary capability. However, none of the studies in the literature confirmed this process or provided real case examples of the positive effect of headquarters overestimation.

The interviews provided numerous comments that headquarters overestimation enhances communication flow between headquarters and subsidiaries and that this leads to suitable support from headquarters, which encourages HCN managers. An HCN manager said that suitable support from headquarters and smooth headquarters-subsidiary cooperation is needed in order to achieve higher performance in

existing business:

'Since most of our operation is closely linked with headquarters, global partners, and local partners, we need to coordinate all these stakeholders and internal procedures if we want to boost our existing business. Coordination by headquarters is necessary to readjust with external stakeholders. Headquarters also needs to appreciate our voice to maintain the good fit of the operations to the local situation.'

Headquarters overestimation of subsidiary capabilities increases the support level which matches local requirements and decreases the control level over subsidiaries. As stated by headquarters managers, while the absolute level of subsidiary capabilities is important, 'trustworthiness is also a crucial factor' and they have 'greater trust of subsidiary units which are more humble'. Headquarters managers who trust a subsidiary will be fairly open-minded in communications received about local information. Thus, headquarters managers could adapt their support to local requirements in a situation of headquarters overestimation. A headquarters manager commented:

'We receive various proposals and requests from subsidiaries. It seems some of them do not come from a deep understanding of our way of doing things. In that case, it is difficult to react based on these proposals and requests. On the other hand,

it is easier for us to respond to the local voices even if the directions of the voices are different from our original thoughts, when we find the local manager quite capable and with a good understanding of our culture.'

The comments given above reflect one typical case, but there are other dynamisms and processes. I have heard about cases in which headquarters overestimation of subsidiary capability also positively influences subsidiary performance. The literature suggested that headquarters overestimation of subsidiary capability prohibits information/knowledge flow from subsidiaries to headquarters: further, and the failure of knowledge transaction negatively influences headquarters-subsidary relationships (Arvidsson, 1999).

One reason why subsidiary overestimation does not affect knowledge outflow from subsidiaries to headquarters could be the more pronounced information-sharing culture of Japanese MNCs (Dyer & Chu, 2003). Since Japanese MNCs emphasise information sharing as a fundamental action even to their subsidiaries, HCN managers may take information sharing for granted at all times.

The case interviews suggested that headquarters overestimation also increases trust. High levels of trust and mutual respect enhance knowledge sharing (Aadne, von Krogh, & Roos, 1996; Inkpen & Currall, 1997). In turn, smooth knowledge transfer

enhances the possession of form-specific advantage (Caves, 1996; Dunning, 1994), which is one of the key determinants of subsidiary performance (Caves, 1996; Dunning, 1994).

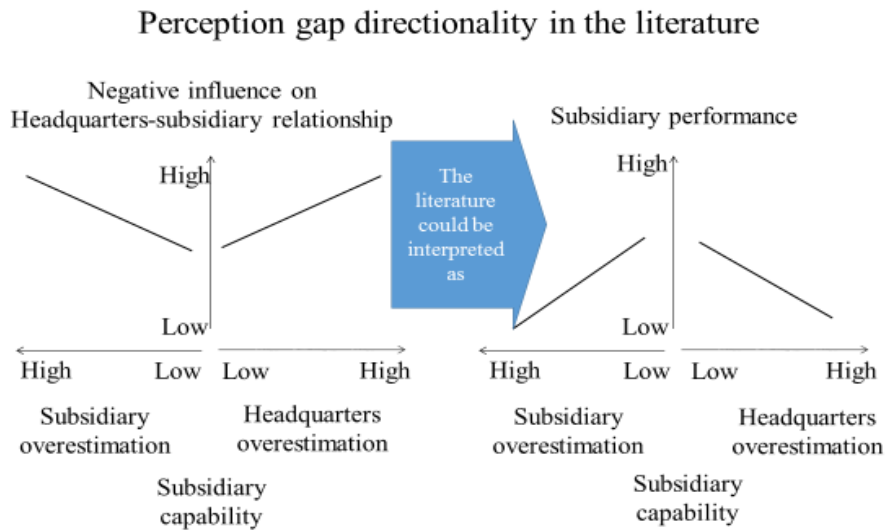
These observations led to the following hypothesis.

**Hypothesis 1b:** Headquarters overestimation of the capability of HCN managers and staff positively influences the existing business performance of foreign subsidiary business units.

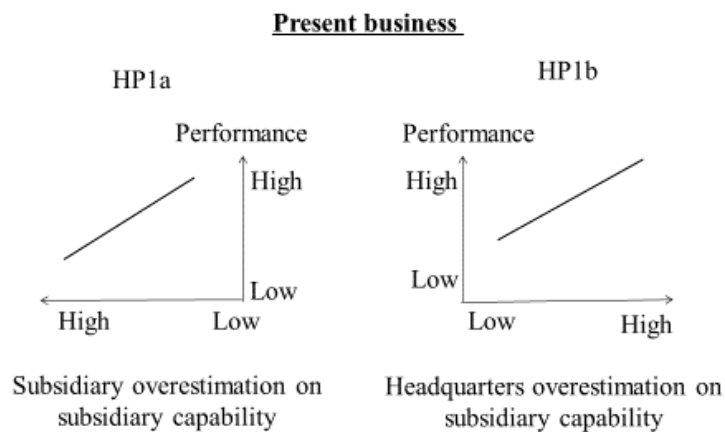
In this regard, Figure 6-6 illustrates what the literature suggested and Figure 6-7 illustrates how Hypotheses 1a and 1b can be described graphically.

While Hypothesis 1a shows a similar direction to what is suggested by the literature, Hypothesis 1b shows a different direction.

**Figure 6-6: Graphical description of perception gap influence on subsidiary capability in the literature (2)**



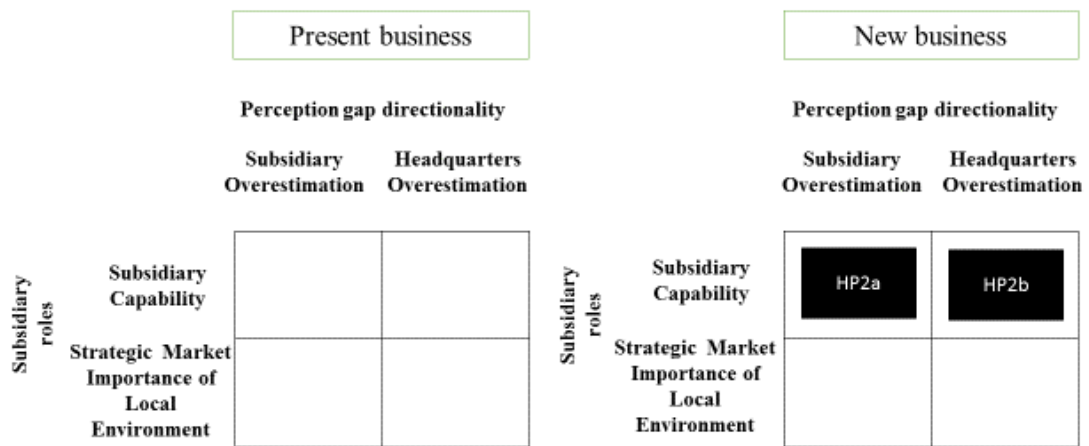
**Figure 6-7: Graphical description of Hypotheses 1a and 1b**



The following section develops the hypotheses which consider how headquarters-subsidary perception gaps regarding subsidiary capabilities influence new

business performance at the subsidiary business unit. Figure 6-8 shows the position of such hypotheses in the framework.

**Figure 6-8: Hypotheses 2a and 2b in the framework**



The literature on headquarters-subsidary performance did not provide analyses which differentiated between existing business and new business. However, in the interviews, TTC managers often emphasised the differences of business dynamism and headquarters-subsidary relationships between existing and new business.

With regard to new business development, subsidiary overestimation of subsidiary capability leads to less headquarters support and/or tighter control of



subsidiaries, which causes the latter's motivation and entrepreneurship to deteriorate. Quite a number of headquarters managers said that they increase their participation or monitoring level, or provide more support, if they find that HCN managers are overestimating their capabilities; however, they do not change their approach to a subsidiary when they notice subsidiary overestimation in a new business area. A headquarters manager said:

'When there is any mismanagement in existing business, it will cause serious damage, so I will be quite concerned when we find HCN managers in subsidiaries overestimating their capabilities and may increase our involvement or ask expatriates to conduct tighter monitoring. On the other hand, while it is true we need to develop new business, I did not increase my involvement or control a lot when I noticed HCN managers overestimating their capabilities. Since I have many other projects, my response to them may be a bit delayed.'

Headquarters managers often said that according to their understanding, HCN managers are quite capable of dealing with existing business in general but are not so well trained regarding new business. For example, the quality of documents for new business is generally lower than those for existing business. As one headquarters manager said:

'Some new business proposals from HCN managers lack necessary information or do not fit our procedures. At such times, I will be sceptical of their capabilities and the management by expatriates. It takes time for us to evaluate a new business proposal if it does not fit our format and/or does not contain the necessary information. In this case, I may reject it or ask a subsidiary to revise it. To tell the truth, we have no time to explain what was missing and how they should write the proposal in detail.'

HCN managers mentioned their frustration about headquarters responses, which seem less challenging and slower than their expectations. For example:

'... it seems headquarters is not willing to take risks. I have proposed quite a number of new business opportunities, but the majority of them have been rejected without any clear explanation. Even if some of them are approved, it takes quite a long time and our potential customers cannot wait so long and go to competitors.'

Further, HCN managers with entrepreneurial capabilities are demotivated if they cannot conduct new business development because of less support or tighter control from headquarters. An expatriate manager said:

'HCN managers are demotivated if they cannot get proper support from

headquarters for new business development. Though expatriates try to intermediate the communication between headquarters and HCN managers, it is sometimes difficult if the gap is large. HCN managers who are capable and willing to do new business are demotivated by scarce resources. But sometimes they quit our company if they feel too frustrated and find other good opportunities outside.'

Thus, one major scenario caused by subsidiary overestimation of subsidiary capabilities in new business is that subsidiary overestimation does not influence headquarters behaviour; however, HCN managers are frustrated or demotivated not by tighter control but by no support or a slow response. In such situations, subsidiary performance regarding new business is negatively influenced.

However, when headquarters managers appreciate the capabilities of HCN managers to a greater extent than the self-image of the latter, headquarters managers become quite open-minded and provide support which matches local requirements. Further, if new business has no connection with existing business, then sometimes HCN managers can have reasonably high autonomy. An HCN manager who is in charge of new business development said:

'It is true we know the local market well, but a new project cannot be realised without efficient and timely support from headquarters which fits well with local

requirements. I have a good communication path with a key senior manager in headquarters and this is why the quality of support is high.'

An HCN manager also mentioned that:

'Because the corporate vision supports new global business development, we try to optimise new business opportunities. Therefore, as long as we are not stopped by headquarters, we would like to drive new business development.'

Headquarters managers admitted that they are less experienced in new business than in existing business; however, it is difficult for them to empower HCN managers unless they have some assurances that the new business does not negatively influence existing business. A headquarters manager said:

'It may be true that we differentiate our support, control, and communication of foreign subsidiaries. Of course, communications with expatriates are important, but we also have some idea of how much we can trust HCN managers' capabilities and their understanding of our ways. I admit these ideas also influence our decisions.'

Expatriate managers mentioned that the way in which HCN managers perceive their capabilities and the absolute level of capabilities are both important. For example:

'The level of subsidiary capabilities may influence how we prioritise the response to subsidiaries. However, if the self-image of HCN managers is higher than that of headquarters managers, the local manager may expect more. Sometimes the expectation level of HCN managers who are capable in new business development is quite high. Then this gap frustrates them a lot even when headquarters are responding relatively quicker to them compared to other subsidiaries. On the other hand, even if HCN managers' capabilities are not so high in terms of an absolute base, sometimes headquarters managers may have a better perception [of these] than their [HCN managers'] self-perception. The response from headquarters managers may be slower than that to other subsidiaries. However, if the headquarters support is better than HCN managers' expectations, HCN managers will be motivated.'

Although mechanisms are different between existing and new businesses, the influences of subsidiary overestimation and headquarters overestimation on subsidiary capabilities showed similar directions regarding subsidiary performance in new business and existing business. For example, subsidiary overestimation negatively influences subsidiary performance in existing business because of higher control by headquarters; however, subsidiary overestimation negatively influences subsidiary performance in new business because of less involvement by headquarters. Further, the delay in responses

from headquarters reduces local responsiveness and flexibility (Edström & Galbraith, 1977), two factors which are fundamental to explorational learning for new business development (March, 1991). In addition, low recognition from headquarters weakens the motivation of subsidiaries (Herzberg, Mausner, & Snyderman, 1959).

The case interviews showed two types of headquarters reaction associated with headquarters overestimation of subsidiary capability: headquarters neither changes its support for subsidiaries nor increases its support. In both instances, the entrepreneurship of subsidiaries is not affected, which is relevant because the entrepreneurial mindset is important for new business development (Ansoff, 1988; Birkinshaw et al., 2005).

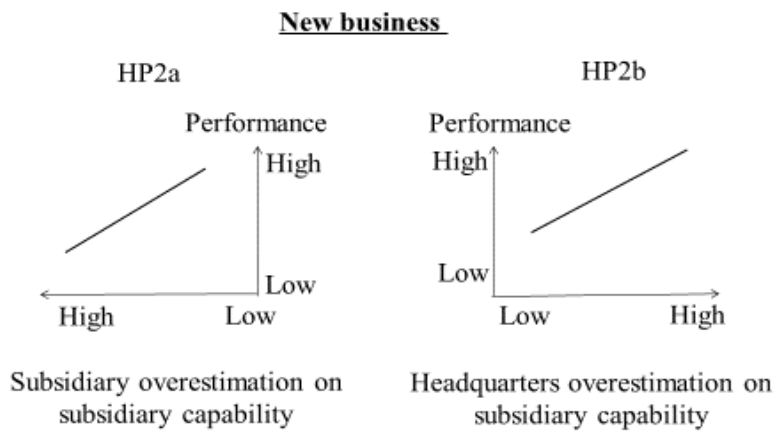
These observations led to the following hypotheses:

**Hypothesis 2a:** Subsidiary overestimation of the subsidiary capabilities of HCN managers and staff negatively influences the new business development performance of foreign subsidiary business units.

**Hypothesis 2b:** Headquarters overestimation of the subsidiary capabilities of HCN managers and staff positively influences the new business development performance of foreign subsidiary business units.

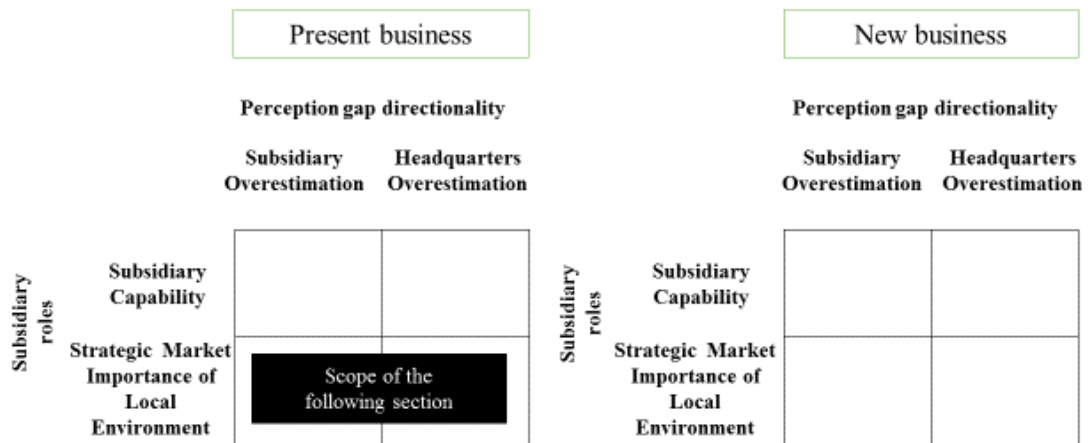
Hypotheses 2a and 2b are described graphically in Figure 6-9.

**Figure 6-9: Graphical description of Hypotheses 2a and 2b**



The foregoing developed hypotheses with regard to the influence of perception gaps on subsidiary capability; the following develops a hypothesis regarding the influence of perception gaps on the strategic importance of the local environment and existing business performance, as illustrated in Figure 6-10.

**Figure 6-10: Hypothesis 3 in the overall framework**

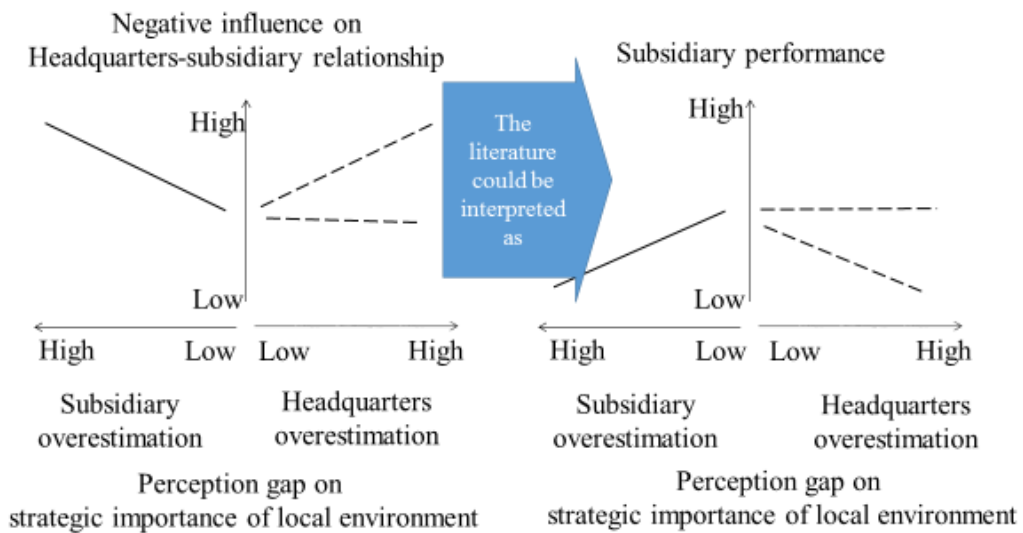


Past research suggested that if headquarters managers, compared with subsidiary managers, regard the strategic importance of the local environment as less strategic, subsidiary managers may waste considerable time in proposal preparation (Birkinshaw, 1995, 1997) and may be negatively evaluated when their local initiatives are condemned by headquarters managers as opportunistic empire-building. The literature has also suggested that when subsidiary managers overestimate their unit's role relative to headquarters managers, they are prone to act in accordance with that perceived role, and headquarters managers in turn are likely to increase their involvement in subsidiary decisions. Such tighter headquarters control leads to inefficient headquarters-subsidary



cooperation (Birkinshaw et al., 2000). The directions suggested by the literature are described in Figure 6-11.

**Figure 6-11: Graphical description of perception gap influence on the strategic importance of local environment in the literature**



TTC managers were especially varied in their perceptions regarding the strategic importance of the local environment. Headquarters managers said that their support and control level for existing business at a subsidiary may not be changed a great deal by their perceptions of the local environment unless they find concerns regarding quality. For example:

'We know the required level of support to operate ongoing business properly. We are not going to reduce the support, which may cause difficulties to our customers abroad. We are not going to strengthen control over a subsidiary unless we have concerns about its capability.'

In addition, an expatriate manager said:

'I sometimes find HCN managers regard market importance higher than how headquarters managers regard the market. Since our operations are quite routinised, the support and control from headquarters are quite constant and usually are not affected by this type of gap. If any fine-tuning is needed, we will take care of the coordination ... since HCN managers know local customers, partners, competitors, and our operations well, if they perceive good growth potential in the market, they could perform quite well unless they are not disturbed.'

It seems that subsidiary overestimation regarding the strategic importance of the local environment does not improve headquarters-subsidary relationships regarding existing business development, but at least does not cause a deterioration of the relationship. However, HCN managers who apprehend more business potential than headquarters could be motivated to drive the existing business. An HCN manager said:

'There are many *kaizen* opportunities in our ongoing business without drastic transformation of the business structures. We could apply *kaizen* to not only internal operations or production, but also to sales and marketing activities. We could accumulate cost reductions mostly through local initiatives.'

HCN managers who recognise strategic opportunities could initiate incremental improvement in back office management, production, sourcing, sales and marketing, and other activities. The majority of experienced HCN managers could manage these *kaizen* issues with expatriate support. In many cases, such initiatives may not be supported by headquarters through an additional injection of resources or information sharing; at the same time, headquarters managers may not try to be involved aggressively or monitor the initiative through HCN managers.

One of the possible explanations for the variance between the literature and the TTC interviews could be the differences within the sample company. Most of the literature on perception gap studies took Western companies as their sample companies, with Asakawa (2001) one of the few exceptions. For example, the sample companies of Birkinshaw (1997) and Birkinshaw et al. (2000) were Canadian and Swedish respectively.

It is well known that Japanese MNCs tend to apply a 'global model' with emphasis

on operational excellence and centralised control, while Western companies tend to apply a 'multinational model' (Bartlett & Ghoshal, 1987). TTC is quite typical of Japanese companies.<sup>ii</sup> Daily communication between headquarters and subsidiaries can be relatively dense and the monitoring level by headquarters managers may be high. Thus, headquarters managers do not have to increase the control level even in situations of subsidiary overestimation. Consequently, HCN managers are so accustomed to frequent daily communication that they take high levels of monitoring and control by headquarters for granted and are less frustrated than managers in Western companies. This also means that the stability of the working environment may be maintained. Such stability can enable HCN managers to exploit local business opportunities, an approach which is one of the key factors in running any existing business (Ansoff, 1988). Thus, I could hypothesise that subsidiary overestimation of the strategic importance of the local environment positively influences the subsidiary business unit performance of existing business.

However, the interviews with TTC managers showed mixed directions with regard to headquarters overestimation of the strategic importance of the local environment. In this context, the literature described the headquarters–subsidiary relationship as characterised by missed opportunities when there is headquarters

overestimation. Headquarters managers predominantly feel frustration about this relationship because they see subsidiary managers as unduly passive and unprepared to take on their full scope of responsibility. Overall, though, the relationship is likely to be relatively harmonious, even if suboptimal (Birkinshaw et al., 2000). The interviews with TTC managers revealed several examples of headquarters overestimation which had both positive and negative influences on the existing business performance of subsidiary business units. Thus, it was difficult to come to a conclusion about a clear direction in headquarters overestimation of the strategic importance of the local environment. Some HCN managers mentioned a negative impact regarding headquarters overestimation of the importance of a subsidiary's local environment. For example:

'When headquarters managers perceive high potential for, or place strategic importance on, the local market, headquarters often requires targets higher than our expectations and provides richer support. However, the local operational process is quite established and in most cases the operation involves external partners. We could manage it, if we had enough extra reserved capacity, but in many cases we are already working at full capacity. Therefore, it is not easy to raise our entire operations to meet the expectations. When headquarters provides richer support, it requires more detailed and frequent reporting, which adds an extra burden on us. These mismatches often demotivate local members.'

Headquarters overestimation of the strategic importance of a subsidiary's environment may increase the level of headquarters support, but this also increases the control level on subsidiaries, which demotivates HCN managers and staff. At the same time, I observed numerous cases where a situation of headquarters overestimation created a harmonious relationship between headquarters and HCN managers. An expatriate manager said:

'Headquarters sometimes provides extra support when it perceives high potential in the market. If the support fits the real situation in the local organisation and business situation, the extra support enhances the performance of the local operation. If the headquarters support does not fit with the local requirements, it increases the burden on subsidiary managers and could lead to lower performance.'

I have observed both mismatched and well-fitting headquarters support in the interviews and could not decide which instance is the major scenario. Because of these observed mixed directions, it is difficult to develop a clear hypothesis regarding the influence of headquarters overestimation on the strategic importance of the local environment. Regarding the strategic importance of the local environment for existing

business, a hypothesis was not developed for headquarters overestimation but for subsidiary overestimation. As I have previously described, subsidiary overestimation of the strategic importance of the local environment does not change the support or control of headquarters. The variance between the observed cases and the literature may be because of the difference in global management styles (Bartlett & Ghoshal, 1987). Further, the increased motivation of HCN managers caused by the awareness of a local business opportunity may not be influenced by headquarters reaction. Instead, such motivation could focus on the exploitation of an opportunity under a stable working environment, which is one of the key requirements for existing business (Ansoff, 1988; March 1991). Thus, I propose the following hypothesis.

**Hypothesis 3:** Subsidiary overestimation of the strategic importance of the local environment positively influences the existing business performance of foreign subsidiary business units.

I now develop a hypothesis regarding the ways in which perception gaps about the strategic importance of local environment influence new business performance in foreign business units. Figure 6-12 illustrates the position of Hypothesis 4 in the overall

framework.

**Figure 6-12: Hypothesis 4 in the overall framework**



The literature suggested that subsidiary overestimation of the strategic importance of the local environment has a negative influence on the headquarters-subsidary relationship (Birkinshaw et al., 2000). Further, perception gaps in exploration-type activities such as R&D cause local dissatisfaction, which leads to lower performance, although the case interviews showed contradictory directions. Some literature mentioned the possibility of perception gaps becoming the raw material for an evaluation of a subsidiary's strategic role, and that the vicious cycle turns into a virtuous cycle (Birkinshaw et al., 2000). However, such literature did not consider the positive influence



of perception gaps through data analysis (Birkinshaw et al., 2000). Nonetheless, the case interviews had various examples which showed that subsidiary overestimation of the importance of the local environment positively influences new business development performance.

HCN managers expressed confidence about new business opportunities in their local markets. For example:

'Since we are close to the local market and partners, we can sometimes reach good business opportunities which are not easily understood by headquarters. Since headquarters managers are quite busy, they do not pay much attention to our new business unless they regard this market as strategically important. If they do not recognise the strategic importance of the local market, they do not provide extra support. Sometimes no support is better than richer support without an in-depth understanding of the local situation. If headquarters is to provide any support, we need to communicate with headquarters, which often leads to extra work. When headquarters does not provide additional support, it also does not control our activity extensively unless our new business may influence existing customers or partners. Then we could precede to new business development if expatriate managers agree on the direction.'

Headquarters managers commented that their way of thinking about subsidiary

overestimation of the strategic importance of the local market may be slightly different between existing business and new business, although the overall reaction to subsidiaries may be more or less the same. A headquarters manager said:

'Though it is difficult to generalise, we may have a tendency that if there is a headquarters-subsidary perception gap regarding existing business and new business, we may appreciate the HCN managers' view of the market about new business more than about existing business. While we have a certain level of confidence about the understanding of existing business, we are aware we do not know the local market well. Unless we have concerns about the capabilities of the local organisation and concerns about the negative impact on current customers, I try not to disturb new business development activities, especially in the preparation stage.'

Another mechanism in subsidiary overestimation has a positive influence on new business development performance. An HCN manager commented:

'Since headquarters managers are looking for new business opportunities abroad, if the profile of new business opportunities including risk and return estimates are properly communicated, headquarters will provide fair support with a reasonable approval process.'

Thus, subsidiary overestimation of the strategic importance of the local environment does not increase headquarters control over HCN managers. HCN managers motivated by local opportunities may not be disturbed following the initiation of new business development abroad. Consequently, subsidiary overestimation of the strategic importance of the local environment positively influences new business performance.

The cases from TTC managers about headquarters overestimation of the strategic importance of the local environment showed mixed views with regard to new business development. If the overestimation level is fair and headquarters provides proper support, HCN managers are stretched reasonably, and the stretch is filled by headquarters support.

An expatriate manager mentioned:

'Though it is difficult to judge, HCN managers will be incentivised if reasonably ambitious targets are assigned and certain resources to achieve them are provided. Sometimes information about the specific new business field from headquarters is beneficial and sometimes monetary support is beneficial. This good mixture contributes to the performance of new business development in subsidiary units. However, if the expectation level by headquarters is too high, HCN managers may feel they are too stretched and could be demotivated, especially when headquarters do not pay enough attention to them.'

Headquarters managers sometimes 'do not understand the local reality' (according to an HCN manager). Headquarters managers evaluate the local market from a macro perspective and their expectations of the local market base regarding macro data sometimes exceed the evaluation by HCN managers. Support from headquarters does not always 'fit the real local requirements in terms of direction and timing' (according to an HCN manager). Several HCN and expatriate managers commented regarding this. For example:

'Since headquarters wants to leverage new business opportunities, it tends to monitor and control tightly. At the same time, headquarters provides various levels of support for the new business project. If headquarters and the subsidiary do not share the strategic context and understanding of the local environment, the process to receive extra resources from headquarters becomes burdensome work.'

Another HCN manager said that 'sometimes the instructions about new business development projects from headquarters miss the point'. A headquarters manager also commented:

'We tend to position a local strategy within a larger global context. Regarding existing business, I believe our strategic direction in each region may be more or less accurate; however, regarding new business development strategy, I am not sure if our strategic direction in certain regions is fair or not.'

These tight controls lead to poor coordination between headquarters and subsidiaries (Birkinshaw et al., 2000) and dissatisfaction (Asakawa, 2001). At the same time, increased support from headquarters leads to lower new business performance. However, subsidiary overestimation of the strategic importance of the local environment increases the entrepreneurship of HCN managers. Such enhanced entrepreneurship is a key determinant of new business development at foreign subsidiaries (Birkinshaw et al., 2005) and is not affected by headquarters interruptions although it could receive suitable headquarters support. Thus, with regard to new business development, although it is difficult to reach a conclusion about specific clear directions for the consequences of headquarters overestimation of the strategic importance of the local environment, the following hypothesis regarding subsidiary overestimation of the strategic importance of the local environment is suggested.

**Hypothesis 4:** Subsidiary overestimation of the strategic importance of the local

environment positively influences the new business development performance of foreign subsidiary business units.

Although I have examined both subsidiary overestimation and headquarters overestimation regarding the strategic importance of the local environment in the context of existing and new business, I have only developed hypotheses regarding subsidiary overestimation. Figure 6-13 illustrates the positions of Hypotheses 3 and 4 in this study's framework.

**Figure 6-13: Hypotheses 3 and 4 in the framework**

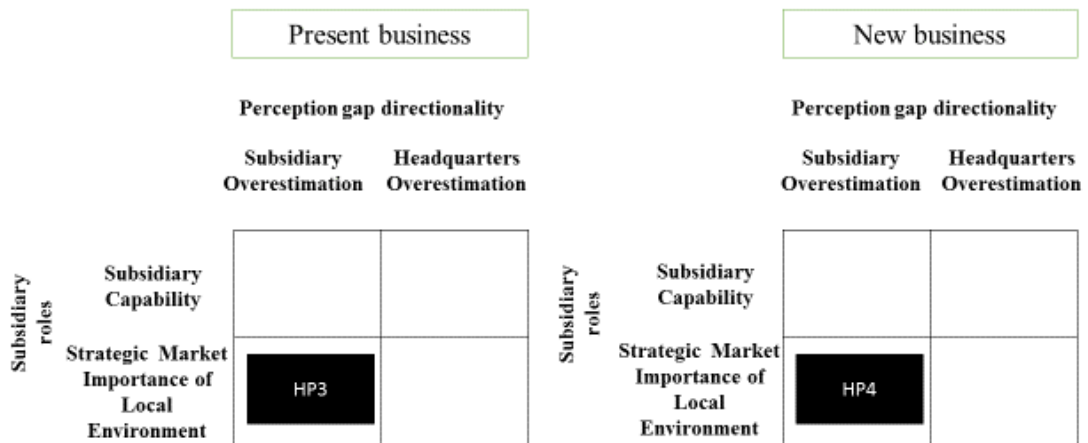
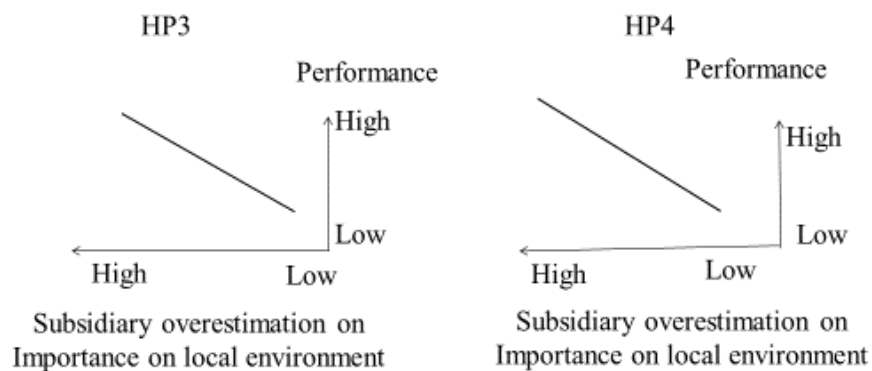


Figure 6-14 presents graphical descriptions of Hypotheses 3 and 4. Both

hypotheses suggest the positive influence of subsidiary overestimation of the strategic importance of the local environment.

**Figure 6-14: Graphical description of Hypotheses 3 and 4**



#### **6.4 Hypotheses regarding the Moderation Effect of Expatriate Coordination via HCN Managers**

The case interviews revealed the importance of expatriate coordination, especially coordination via HCN managers regarding headquarters-subsidary relationships. However, before developing the hypotheses, I wish to consider the views of the literature about expatriate coordination and its influence on subsidiary performance.

Expatriate personnel are often grouped into two categories: parent-country nationals (PCN), whose national origin is the same as that of the corporate headquarters, and third-country nationals (TCN) (Lasserre, 2007). Until the 1990s, most MNCs used PCN expatriates (Kamoche, 1997); then, during the 1990s and 2000s, some Western MNCs began to use more TCN expatriates and HCN managers. Japanese MNCs, however, still tend to have a relatively high PCN expatriate ratio (Shiraki, 2006).

Numerous studies have shown that expatriate personnel face various challenges when acclimatising to a foreign environment (Lasserre, 2007), such as cross-cultural adjustment (Kraimer, Wayne, & Jaworski, 2001) and role novelty and role ambiguity (Florkowski & Fogel, 1999; Gregersen & Black, 1992; Shaffer, Harrison, & Gilley, 1999). Thus, there are many studies about expatriates, adjustment to local environments (Takeuchi, Yum, & Tesluk, 2002), and expatriates' performance (Kraimer et al., 2001).

MNCs use expatriates for various assignments and with a range of motives (Black, Gregersen, Mendenhall, & Oddou, 1991; Peterson, Napier, & Shim, 1996). Although the assignment policies of expatriates vary according to the global positioning and management style of their MNCs, expatriate transfer policies can generally be categorised into three areas (Edstrom and Galbraith, 1977): 1) to fill a position, which is the classic expatriation policy in order to fulfil the knowledge, resources, and manpower



requirements of a subsidiary; 2) to develop managers, which is a policy designed to utilise international postings as a tool to help develop managerial talents; and 3) to develop an organisation, which is a policy embracing the 'transnational management' philosophy in which people move around in order to develop products and lead marketing campaigns with a view to developing the MNC's global strategic capability (Edstrom & Galbraith, 1977).

Traditionally, the key roles of expatriates are as the 'controllers of foreign subsidiaries' and as agents transferring knowledge from headquarters to foreign subsidiaries (Kamoche, 1997). For example, Boyacigiller (1990) noted that the expatriate is often expected to teach locals how things are done at headquarters. At the same time, expatriate coordination means subtle control by MNC headquarters (Martinez & Jarillo, 1991). Both roles regard expatriates as representatives of headquarters objectives, a situation which has involved the placement of PCN expatriates in key positions. As individual knowledge carriers, expatriates are supposed to help subsidiary performance improvement by disseminating their personal experience and individual knowledge, both of which the foreign subsidiaries lack (Gaur et al., 2007; Hébert, Very, & Beamish, 2005; Minbaeva & Michailova, 2004). In this way, expatriate managers can represent an effective strategy to help foreign affiliates adhere to corporate

objectives and practices (Edstrom & Galbraith, 1977; Mayrhofer & Brewster, 1996). Expatriates have also been expected to adopt gradually a coordinating role between headquarters and subsidiaries through facilitating not only knowledge inflow to the subsidiaries, but also knowledge outflow from the subsidiaries (Hocking, Michelle, & Harzing, 2004).

As subsidiaries mature, they may start to have their own interests and objectives; they will then need somebody to work with headquarters on their behalf. One of the key functions of expatriates working for the interests of subsidiaries can be to attract headquarters attention. Expatriates can indeed be a suitable agent for attracting such attention for the following reasons: 1) they are more committed to corporate strategy than foreign subsidiaries' employees (Black & Gregersen, 1992; Kobrin, 1988); 2) there is an intuitive belief that they tend to be more loyal to the company (Banai & Reisel, 1993); 3) they have strong ties with headquarters through personal connections and cultural identification (Harzing, 2001; Richards, 2001); 4) they understand the home country's culture (Park, Gowan, & Sun, 2002); and 5) they have their eyes on-site, which helps to identify opportunities for the company (Ren & Guo, 2011).

In particular, expatriates of Japanese MNCs are believed to have a greater overall commitment to headquarters and to be trustworthy agents in culturally distant countries

(Gregerson & Black, 1996). Both Japanese and non-Japanese scholars have pointed out that Japanese MNCs have a greater tendency to control foreign subsidiaries through Japanese expatriates compared to Western MNCs (Delios & Bjorkman, 2000; Yoshino, 1976). Since Japanese MNCs regard foreign expatriates as having elite-tracked careers, expatriates of Japanese MNCs are seen as generally capable (Ohta, 2008). Such expatriates can be used as a response to a perceived need for control and to ensure effective communication with headquarters (Edstrom & Galbraith, 1977). However, relying extensively on expatriate managers can be a costly strategy to sustain (Birdseye & Hall, 1995). Nonetheless, expatriates' experience working at headquarters can help them channel messages to headquarters through their personal networks and deliver them in a way which is more likely to capture headquarters attention. This facilitating role implies that the use of expatriates could systematically affect the relationship between parent-company organisational knowledge and subsidiary performance (Fang, Jiang, Makino, & Beamish, 2010).

As subsidiaries increase their capabilities and autonomy, expatriates face greater challenges about how to maintain a balance between acting as a representative of both headquarters and the subsidiary. This is the so-called 'dual organisational identification (DOI)' issue (Blazejewski & Ritterspach, 2011; Vora et al., 2007). Reaching a proper

balance requires aptitude and a certain experience (Gregersen & Black, 1992; Shiraki, 2006).

Some discrepancies exist between the studies of Japanese MNCs and Western MNCs regarding the influence of expatriate use on subsidiary performance. While Colakoglu and Caligiuri (2008) suggested that the extensive use of home country expatriates in foreign subsidiaries which are institutionally distant negatively influences subsidiary performance, Gong (2003a) found that such use of Japanese expatriates positively influences subsidiary performance. One interpretation of this contradiction is that Japanese expatriates transfer the competitive advantage of Japanese management and production processes to foreign subsidiaries (Adler, 1999; Jenkins & Florida, 1999; Johnson & Ouchi, 1974; Ouchi 1980). However, most studies on the relationship between expatriate use and subsidiary performance have focused on the influence of the ratio or numbers of expatriates on subsidiary performance. Almost no detailed studies have investigated the relationship between expatriate roles or behaviour and subsidiary performance.

Table 6-2 summarises the contradictory views about the relationship between expatriate use and subsidiary performance. On the one hand, some studies have suggested that the extensive use of expatriates has a negative influence on foreign subsidiaries by

decreasing the local staff's morale (Parlmutter & Heenan, 1974; Zeira, Harari, & Nundi, 1975) and reducing productivity (Gaur et al., 2007). Other studies have suggested that the extensive use of expatriates has a positive effect by transferring company-specific knowledge to subsidiaries (Oki, 2010) and enabling better coordination with headquarters (Richards, 2001). In particular, a positive impact can be observed during the early stages when subsidiaries change their roles, or during periods of subsidiary growth (Gong, 2003a). Further, Shiraki (2006) concluded that no correlation exists between expatriate ratio and performance. Elsewhere, Takeuchi and Takahashi (2003) studied the subsidiaries of Japanese manufacturing companies and found that no correlation exists between control and performance when the expatriate ratio is low, but a negative correlation exists when the expatriate ratio is high. These contradictory results suggest the importance of expatriate activity to the prediction of subsidiary performance.

Most studies on perception gaps have not clarified the background of their questionnaires' respondents in subsidiaries and have simply described such respondents as 'subsidiary managers' (Birkinshaw et al., 2000) or 'local managers' (Arvidsson, 1999). The only exception was research by Daniel (2010) which identified expatriate and HCN managers; however, this study involved only seven dyad units and did not investigate whether any differences exist between expatriates and HCN managers.

**Table 6-2: Comparison of relationship between expatriate ratio and subsidiary performance**

	Expats should be Decreased	Reasoning	
Zeira et al. (1975)	Yes	Morale down of local staff	Questionnaire
Gong (2003)	Yes	Positive impact of expats deteriorates year by year	(single year)Cross sectional quantitative
Takeuchi and Takahashi (2003)	Yes	Low expats ratio company showed higher performance	(single year)Cross sectional quantitative
Shiraki (2006)	Sceptical(no correlation with Performance)	No correlation in expats ration and performance	(single year)Cross sectional quantitative
Inamura (2007)	Sceptical (some time increased expat lead to high performance)	Higher survival ration of subsidiaries for switching Japanese to be a top	1995-2003 survival ratio analysis
Oki (2009)	Sceptical (Decreasing expats lead lower performance)		Case analysis for 10-years time span
Oki (2010)	No (except growth period)	There are positive correlation between the increase of expatriates and subsidiary business performance in the growth period with some time lag)	2001,2004,2007 quantitative

Thus, despite all the literature on expatriate management, insufficient studies have considered the relationship between expatriates and subsidiary performance (Gong, 2003a ; Inamura, 2007; Takeuchi & Takahashi, 2003). As aforementioned, those which have studied this relationship focused on the connection between the ratio or number of expatriates and foreign subsidiary performance (Gong, 2003a 2003b; Oki, 2010; Shiraki, 2006; Takeuchi & Takahashi, 2003; Zeira et al., 1975). No studies have examined the relationship between the activities of the expatriate role and subsidiary performance. The literature has emphasised the importance of the coordination role of PCN expatriates; however, HCN managers are not regarded as suitable agents for coordination (Black &

Gregersen, 1992; Clapham & Schwenk, 1991; Kobrin, 1988). Thus, expatriate coordination via HCN managers is a neglected study area.

I now wish to shift the focus from the literature to the interview findings with regard to the examination of expatriate coordination. Almost all the TTC expatriates regarded coordination between headquarters and subsidiaries as one of their key roles. Most of these expatriates acknowledged that they perform a necessary liaison role in order to run the local business of the subsidiaries smoothly. A headquarters manager and expatriate said:

'Coordination is part of our DNA as a trading company. I believe all of our expatriates do coordination roles if necessary without receiving clear instructions. Of course we need to train young non-experienced expatriates, but even the young expatriates know the importance of coordination.'

Expatriates are now trying to utilise HCN managers for coordination roles on occasions when in the past they did not let such managers take on such roles for two reasons: the policy of transferring power to HCN managers and the capacity limitations of expatriates. Further, as mentioned in the case study in Chapter 4, there are two types of coordination: expatriate coordination by expatriates and coordination via HCN managers.

The following comments reflect these issues:

'In the past, we did not let HCN managers take coordination roles with headquarters. However, we now have a good number of experienced HCN managers who know our way of doing business. Coordination in subsidiaries means various activities, including information gathering both locally and from headquarters, and adjusting the different opinions among internal and external stakeholders. I assume some of these HCN managers could communicate with headquarters properly.'

'Business in our division has expanded dramatically in past years. However, the number of expatriates has not increased and they are getting younger. So we need to leverage HCN managers if appropriate.'

In reality, expatriate managers use HCN managers for coordination selectively. Expatriate managers use HCN manager coordination when they assume that headquarters will appreciate the HCN managers' capabilities or regard the local market as strategically important. An expatriate manager said:

'Since our business flow is quite integrated organically, it is not easy to split the coordination role into several parts. It is efficient to have one person take care of coordination comprehensively. Therefore, we cannot use HCN managers when the



headquarters side does not have sufficient trust in HCN managers.'

The expatriate manager continued:

'When I was at headquarters, I was quite busy and couldn't respond to all of the requirements from foreign subsidiaries. In particular, reactions to new business took time, so I needed to prioritise actions based on their importance in the market. Therefore, I assume that communication with headquarters by HCN managers about new business will be effective only when headquarters overvalues the importance of the specific local market.'

HCN managers also said that it is not easy for them to coordinate with headquarters. For example:

'Though I have been with TTC for more than 10 years, I have confidence in my understanding of local business and I know quite a number of senior managers in headquarters. However, it is not easy even for me to communicate and persuade them on certain issues; especially when my counterpart does not know me and respect me.'

Thus, expatriates coordinate via HCN managers only when headquarters

overestimates subsidiary capabilities. Headquarters managers said that their reactions to coordination via HCN managers may be different for existing business and new business development. Indeed, a headquarters manager made the following positive comment regarding coordination via HCN managers:

'Regarding ongoing business, we feel more or less comfortable when HCN managers contact us directly since we already share an understanding of the operations and the communication is not stressful. Sometimes, communication with HCN managers is much smoother than the communication with expatriates since HCN managers know the local situation quite well.'

People tend to overestimate what they cannot control and underestimate what they could control (Rosenzweig, 2014). Existing business is an area that expatriates know well and could control well; thus, they do not overestimate the capability of HCN managers when they use such managers for coordination. Consequently, expatriate managers may not be disappointed when they find that HCN managers are not as capable as they initially perceived. Further, the trust between headquarters and subsidiaries is strengthened by the direct interaction of headquarters and HCN managers. A higher level of trust enhances the willingness to provide useful knowledge (Andrews

& Delahaye, 2000) and increases the willingness to listen to such knowledge and absorb it (Evans, 2012). This positive cycle adjusts the headquarters-subsidary relationship to fit the context of the subsidiary and is one of the key determinants of subsidiary performance (Nohria & Ghoshal, 1994). Nonetheless, a few cases of headquarters overestimation have successfully had a positive influence on new business development. However, as far as I have observed, such cases are in a minority. Consequently, the following hypothesis is proposed:

**Hypothesis 5:** The greater the amount of expatriate coordination via HCN managers, the greater the positive influence of headquarters overestimation regarding subsidiary capabilities on the existing business performance of foreign subsidiary business unit.

However, although headquarters managers sometimes let HCN managers coordinate new business development, it seems that coordination via HCN managers for new business is not always effective. A headquarters manager said:

'Regarding new business development, the communication with HCN managers is

sometimes not so easy for us. It usually takes a lot of time and energy for us to understand the background of the local situation for the new project. What I sometimes find is that HCN managers who seemed capable about ongoing business cannot explain the new business as we expect. If I do not understand what they tell me, I cannot proceed with the project properly.'

Thus, even when headquarters managers appreciate the HCN managers' capabilities to some extent, HCN managers sometimes cannot coordinate efficiently enough because of the complexity of such coordination for new business. It also seems that it is relatively difficult for expatriates to presume how headquarters managers perceive the capabilities of HCN managers with regard to new business compared to existing business.

In some cases, headquarters managers realise that they are overestimating the capabilities of HCN managers or overestimating the strategic importance of the local environment through direct coordination by HCN managers. A headquarters manager said:

'When HCN managers have a coordination role, we can observe them better than through routine communications. We sometimes find that an HCN manager who looked quite capable at indirect communication is not as capable as was expected

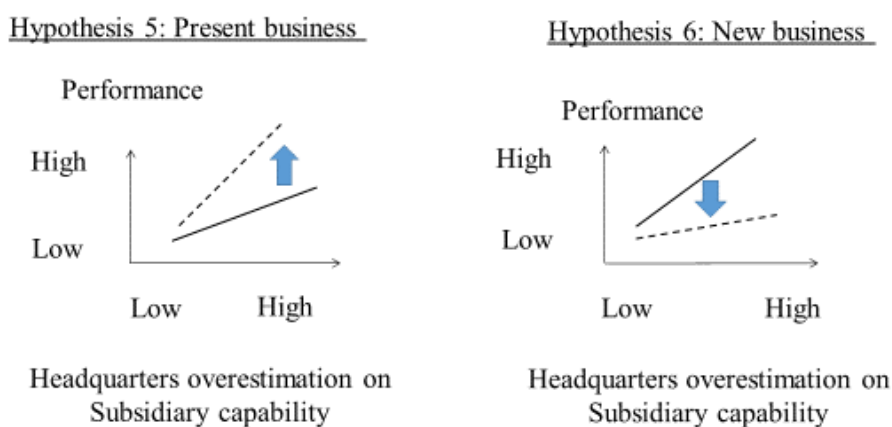
once he/she coordinates a new project directly. Since we have a certain view of the proper communication process and format for new business development, we will monitor the process cautiously if we find that the process, format, or contents are not what we expect.'

As previously cited, people tend to overestimate what they cannot control and underestimate what they could control (Rosenzweig, 2014). Thus, it is possible that expatriates overestimate the capability of HCN managers when they think that headquarters managers may respect such capability. Consequently, some expatriate managers are disappointed to find that HCN managers are not as capable as they assumed, a situation which leads to a lower level of trust (Andrews & Delahaye, 2000) and less adjustment of headquarters-subsidary relationships (Nohria & Ghoshal, 1994). These observations led to the following hypothesis:

**Hypothesis 6:** The greater the amount of expatriate coordination via HCN managers, the less the positive influence of headquarters overestimation regarding subsidiary capabilities on the new business development performance of foreign subsidiary business units.

Figure 6-15 describes the effects of Hypothesis 5 and Hypothesis 6 graphically.

**Figure 6-15: Graphical description of Hypotheses 5 and 6**



Through the literature and case interview data, I have developed eight hypotheses to answer the main research question 'How do perception gaps between MNCs' headquarters and subsidiaries regarding subsidiary roles affect subsidiary performance?' The hypotheses developed in this chapter are as follows:

**Hypothesis 1a:** Subsidiary overestimation of the capability of HCN managers and staff negatively influences the existing business performance of foreign subsidiary business units.

**Hypothesis 1b:** Headquarters overestimation of the capability of HCN managers and staff positively influences the existing business performance of the foreign subsidiary business units.

**Hypothesis 2a:** Subsidiary overestimation of the subsidiary capabilities of HCN managers and staff negatively influences the new business development performance of foreign subsidiary business units.

**Hypothesis 2b:** Headquarters overestimation of the subsidiary capabilities of HCN managers and staff positively influences the new business development performance of foreign subsidiary business units.

**Hypothesis 3:** Subsidiary overestimation of the strategic importance of the local environment positively influences the existing business performance of foreign subsidiary business units.

**Hypothesis 4:** Subsidiary overestimation of the strategic importance of the local

environment positively influences the new business development performance of foreign subsidiary business units.

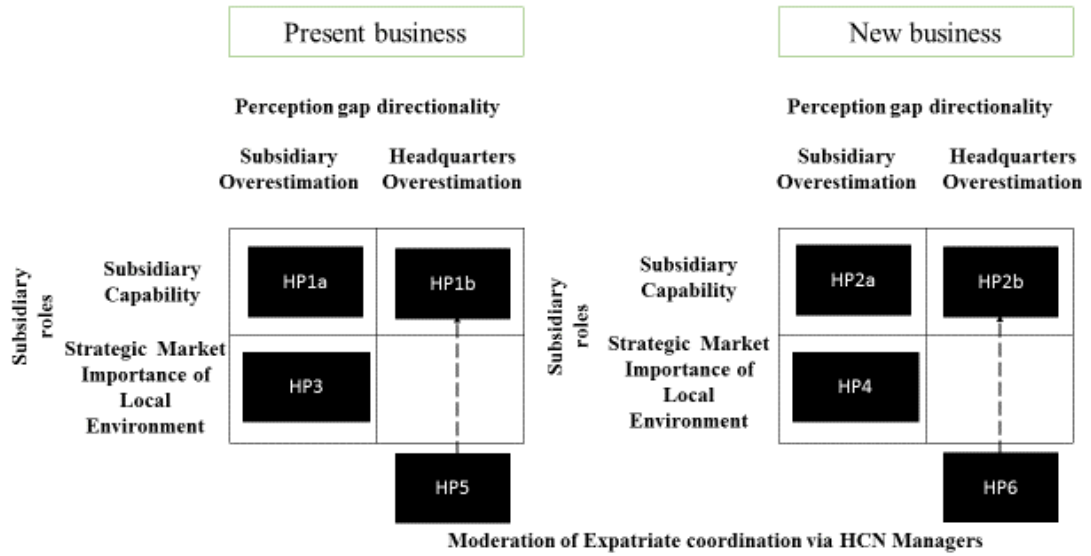
**Hypothesis 5:** The greater the amount of expatriate coordination via HCN managers, the greater the positive influence of headquarters overestimation regarding subsidiary capabilities on the existing business performance of foreign subsidiary business units.

**Hypothesis 6:** The greater the amount of expatriate coordination via HCN managers, the less the positive influence of headquarters overestimation regarding subsidiary capabilities on the new business development performance of foreign subsidiary business units.

The positions of these hypotheses in the overall framework of this study are graphically summarised in Figure 6-16. I now test these hypotheses through quantitative analysis using the questionnaire survey in the following chapters.



**Figure 6-16: The positions of all the hypotheses in the overall framework**



## **7 PHASE II RESEARCH: METHODS OF QUANTITATIVE RESEARCH**

This chapter presents the research design and methodology employed in the quantitative study which examines the hypotheses developed through the prior chapters. I discuss the development of the research instruments, the operationalisation and measurement of variables, instrument pretests, sampling, and data collection.

### **7.1 Preliminary Considerations**

Researchers use various designs and methods for scientific inquiry. Widely used designs include qualitative, quantitative, and mixed method (Newman & Benz, 1998). This study adopted the mixed-method approach because of the explorative nature of the study and the need to collect appropriate data for analysis. The methodology for the qualitative aspect of this research has already been explained in Chapter 3.

Several methods are also available for researchers to collect data for empirical studies, including field methods, experimental simulations, laboratory experiments, and computer simulations. In addition, a combination of these is referred to as triangulation or multi-method research (Brewer & Hunter, 1989; Snow & Thomas, 1994). A field method is often used in management research. In this study, the questionnaire survey is preferred among the options for field research because it is efficient at attaining the required level

of samples in terms of speed and cost (Dillman, 2000; Fox, Crask, & Kim, 1988).

## **7.2 Sample and Data Collection**

The unit of analysis for this study was the subsidiary SBU of an MNC. The subsidiary SBU is a certain sub-business division in a subsidiary. For example, the global logistics division of TTC's Chinese subsidiary is an SBU.

I conducted a survey of various SBUs of one MNC in order to control corporate strategy and organisational characteristics. As explained in Chapter 3, TTC was selected as a research site because it 1) came from a high-context communication country, 2) has high international exposure with the highest foreign sales ratio among all Japanese service companies, 3) has wide geographic coverage, and 4) has varied business domains. Points 3) and 4) in particular provide this research with similar effects to those of multiple company research. In order to test the hypotheses regarding the perception gaps between headquarters and subsidiary HCN managers and the moderation effect of expatriate coordination via HCN managers, I conducted surveys on three types of stakeholder in an SBU: headquarters managers, HCN managers, and expatriate managers.

This survey involved 73 SBUs which included 392 potential respondents (114 expatriates, 154 HCN managers and 124 headquarters managers) from TTC. TTC has 26

core foreign subsidiaries which it calls 'AS subsidiaries'. Because four of them are in China and two in Europe, I regarded the four core Chinese subsidiaries as one, and the two European subsidiaries as one. Based on the two criteria of (1) size of the business and 2) coverage of business domains, I selected eight core subsidiaries for the main quantitative survey. These eight subsidiaries were the United States, Thailand, the European Union, China, Singapore, Indonesia, India, and Africa. From these eight, I selected six core subsidiaries for qualitative case interviews in order to attain a good balance of subsidiary size and history. TTC has seven core business divisions which are divided into 25 sub-business divisions. I had several discussions with TTC senior management, Strategic Planning Department managers, and the company's Global Human Resources Department, then selected 17 strategic subdivisions which have both existing business and new business in their foreign SBUs. While the matrix of the 17 subdivisions and eight core subsidiaries could potentially have 136 SBUs, not all the 17 subdivisions operate in the eight subsidiaries.

Thus, the total of the survey population was 73 SBUs. Since the eight core subsidiaries are the largest of TTC's 20 core subsidiaries, these 73 SBUs represent more than 80% of TTC's total foreign sales. From these 73 SBUs, I received 50 dyad (headquarters and HCN manager dyad) and 46 triad (HCN manager and expatriate

manager triad) answers.

### ***7.2.1 Selection of respondents***

The selection of respondents for the questionnaire survey was a two-fold process. The first step was to identify respondents in the subsidiaries; the second step was to identify headquarters respondents. With regard to the survey's respondents, I used two selection criteria based on discussions with TTC senior management, Strategic Planning Department managers, and the Global Human Resources Department. One was the seniority of the potential respondent's organisational position and the other was his or her experience at TTC. At least two years' working experience with TTC was required for HCN managers. Senior HCN managers who had just joined TTC were omitted. I asked the local human resources managers in each of the subsidiaries to list up to three expatriate managers and three HCN managers in each of the regional 17 SBUs via the Global Human Resources Department. In the questionnaire to expatriate and HCN managers, I asked them to name three headquarters directors and/or managers and/or staff to whom they report in order to compile a list of headquarters managers. I made a list of headquarters respondents while at the same time identifying who is in charge of which SBU. This list was cross-checked with the human resources database of the Global

Human Resources Department.

To overcome problems associated with common method variance, I asked participants to respond to questions from multiple perspectives. The answers on the dependent variables (i.e. performance) were double-checked with actual figures. Since the focus of this study was on a privately held company and its subsidiaries, it was impossible to obtain consistent public data on the internal activities and perceptions of subsidiaries.

I e-mailed Web-based questionnaires to the listed respondents. The survey was officially introduced by senior directors to all the heads of core divisions and core subsidiaries at the quarterly management meetings. The manager of the Global Human Resources Department attended the interviews at the subsidiaries and asked for the cooperation of the local managers. The director of the Global Human Resources Department also asked the local human resources managers to pre-warn the participants about the survey before disseminating the Web-based questionnaire. Clearly identifying these endorsements in my communications with subsidiary and headquarters executives and managers may have helped to build trust in the proposal that my data collection efforts were legitimate and useful. Specific steps were also taken to maximise the response rate (Sakai, 2012) by 1) avoiding busy times, 2) attaching an explanation of the

survey with the endorsement, and 3) sending reminders to potential respondents about a week before and a week after the due date. The respondents' confidentiality was maintained by using serial numbers on the Web survey to keep track of respondents and non-respondents (Sharma, 2000). In total, 253 of 392 potential respondents answered, providing a response rate of 64.5%, which is satisfactory for research of this type (Harzing, 2000). Thus, the risk of non-respondent bias should be relatively low.

After checking the missing data, I confirmed whether or not all of the 253 data submissions were usable for subsequent analysis.

### **7.3 Questionnaire Development**

The questionnaire covered a large number of constructs relating to business unit performance, subsidiary role perception gaps, and expatriate coordination. For each construct, I developed multi-item scales, based on existing measures in associated literature, my case interviews, and discussions with TTC management. Three types of questionnaire, for headquarters managers, expatriate managers, and HCN managers, were developed. These questionnaires for headquarters, expatriate, and HCN managers had questions for 75, 98, and 98 people respectively with 5-point Likert scales.

The questionnaires were developed in four stages. First, I drafted them based on

the literature and case interviews. If questionnaires used in past literature corresponded to my research agenda, I applied them as much as possible; if no existing questionnaires fitted my research agenda, I created questions based on the case interviews. I then prepared both English and Japanese versions of the questionnaires. I had the English checked by a native speaker and then translated the English version into Japanese using a third party to check that both versions were consistent.

Second, I asked three academics to review the first draft to identify questions which were vague, ambiguous, or a source of possible bias. Through this feedback, I eliminated and modified some of the items in the first draft and added other items. Third, I asked the managers of the Global Human Resources Department and Strategic Planning Department to review the paper-based questionnaire in order to avoid misunderstandings about the terminology and minimise the risk of social desirability bias. Since there are nationality differences with regard to social desirability bias (Steenkamp, Jong, & Baumgartner, 2010), I asked managers of several nationalities to answer the survey questions in an indirect way, from the perspectives of a group of managers rather than from their own individual points of view (Fisher, 1993) Fourth, I asked 20 headquarters manager, HCN managers, and expatriate managers to answer the Web survey as a pilot study in order to confirm the reliability and understandability of the questionnaire.



### ***7.3.1 Procedures***

In order to construct a clear understanding of scholarly views of the subsidiary performance concept in the study of the parent-subsidiary relationship in an MNC context (Teddle & Tashakkori, 2009; Thornton, 2004), I conducted a preliminary set of face-to-face interviews with headquarters executives and subsidiary managers in the EU, the US, Thailand, Singapore, Indonesia, and China. This approach, which led to the identification of different business dynamisms between existing and new businesses, was described in Chapter 3. 134 face-to-face interviews brought us quite a rich set of data; I used the data to develop my hypotheses and questionnaires. These interviews also helped me to identify the importance and complexity of expatriate coordination. There are various cases where HCN managers adopt a coordination role based on the instructions from, and monitoring by, expatriate managers, a situation which prompted mixed opinions. Thus, I labelled 'expatriate coordination via HCN managers' as part of the moderation variables.

### ***7.3.2 Dependent variables: subsidiary business unit performance***

#### **Multidimensional scales**

Subsidiary business unit performance was measured by asking headquarters managers 15 questions on a scale ranging from 1 to 5 together with NA. 1 = far better than planned (exceeds expectations/industry norms); 2 = above expectations, better than planned; 3 = on par with industry expectations; 4 = below expectations, worse than planned; 5 = far below expectations; and NA = not applicable.

The 15 questions were developed based on the case interviews and discussions with TTC managers after studying the literature (Isobe, Makino, & Montgomery, 2000; Kawai & Strange, 2014). Several studies have used perceptual performance measures because these are more forward-looking than the more objective performance measure which has been used to capture past performance (Lin & Germain, 2003; Miller, 1991). Further, since I planned to examine the performance of both existing business and new business, it was quite difficult for TTC to evaluate both activities using real values because the stages of existing and new businesses are different.

The existing business performance of subsidiary business units was measured by asking respondents to evaluate their local business units' performances in the context of the following eight areas: 1) overall profitability level compared with industry norms, 2) overall profitability level compared with your expectations, 3) overall profit growth ratio compared with your expectations, 4) market-share level of existing business compared

with your expectations, 5) productivity level of existing business compared with your expectations, 6) cost and quality levels of existing business compared with your expectations, 7) operation level of existing business compared with your expectations, and 8) business penetration level with regard to existing customers compared with your expectations. Since trading companies regard profit as a key financial performance index, the survey focused more on this issue; thus, the first three areas were about profit. Since productivity, cost and quality, smooth operations, market share, and customer in-house share are key strategic KPIs for TTC, these factors were also included.

I then measured new business performance by asking for evaluations in the following seven areas: 9) new business growth status compared with your expectations, 10) new customer development level compared with your expectations, 11) overall preparation level for new business development compared with your expectations, 12) new service/product development status compared with your expectations, 13) contribution to other departments, 14) overall performance of new business, and 15) overall performance of existing business. Areas 9 to 14 asked for performance evaluation of new business development in order to capture the evaluation of exploration activity. The survey reflects how TTC regards new business development processes. The answers from headquarters managers for each SBU were averaged.

### ***7.3.3 Independent variables: subsidiary roles***

Both independent variables of the subsidiary roles, 'the strategic importance of a subsidiary's local environment' and 'subsidiary capabilities', were measured by asking headquarters managers and HCN managers.

#### **Subsidiary role: strategic importance of the local environment**

The raw data for this variable consisted of four measurements concerning the strategic importance of the local environment, subsidiary capability, knowledge flow, and corporate culture. Each measure had several questions. The strategic importance of the local environment measure had three questions; the subsidiary capability measure had eight questions; the knowledge flow measure had two sub-measures with nine questions each; and the corporate culture measure had four questions. All these questions were answered by using a 5-point Likert scale. Questions regarding market importance, subsidiary capability, and knowledge flows were developed based on the literature with some modifications in order to accommodate TTC's business situation. Questions regarding corporate culture were developed based on discussions with TTC management, the Corporate Strategy Department, and the Global Human Resources Department.

### **Subsidiary role perception gap: subsidiary capability**

Instead of using the phrase 'organisational competence', Bartlett and Ghoshal employed 'level of local resources and capabilities' (Bartlett & Ghoshal, 1991: 106). In business literature, resources, capability, and competence are generally not distinguished clearly; indeed, it seems that Bartlett and Ghoshal used these terms interchangeably (Bartlett & Ghoshal, 1986, 1991). In this regard, resources can be divided into tangible and intangible resources; and of these, capabilities and competence are often regarded as intangible resources (Barney, 1991; Galbreath, 2005). Various authors have tried to define capabilities and competence. Stalk, Evans, and Shulman (1992) differentiated capabilities and competence as follows: 'Core competence emphasizes technological and production expertise at specific points along the value chain; capabilities are more broadly based, encompassing the entire value chain.' Further, both concepts complement each other.

Daniel (2010: 25) proposed the functional area of a subsidiary's capability based on Benito, Grøgaard, and Narula (2003) and Moore (2000) as: 1) research and development, 2) production of goods/and or services, 3) marketing and/or sales, 4) logistics and/or distribution, 5) purchasing, 6) human resources management, and 7) general management. This present study applied Daniel's (2010) functional area list with

some alterations. New business development was added to 1) research and development, and partner development was added as an eighth factor.

I asked several headquarters managers in each SBU about the dependent variables, the answers for the independent variables were taken from headquarters managers, expatriate managers and HCN managers in the same SBU. If three HCN managers of the 'food' division in China answered, for example, the answers were averaged. There are two types of independent variable with regard to subsidiary role. One concerns the strategic importance of the local environment and the other concerns subsidiary capability. Within the subsidiary business unit, for each question I first subtracted subsidiary responses as perception gaps, then using these to construct the subsidiary overestimation and headquarters overestimation on the subsidiary role. 'HQOE: headquarters overestimation' was constructed by setting the measure equal to the perception gap term if it was positive and zero otherwise. 'SBOE: subsidiary overestimation' was constructed by setting the measure equal to the perception gap term if it was negative and zero otherwise (O'Brien & David, 2014; Wade, O'Reilly, & Pollock, 2006).

The following abbreviations apply.

- $V0 = I_h - I_s$  (continuous variables) -  $-4 < V0 < 4$ .
- $I_h$  represents answers to subsidiary role questions given by headquarters

managers (averaged by each strategic unit).

- Is represents answers to subsidiary role questions given by subsidiary HCN managers/staff (averaged by each strategic unit).
- HQOE = headquarters overestimation.
- SBOE = subsidiary overestimation.

To analyse the causal relationship between dependent and independent variables, I used multiple regression analysis to examine Hypotheses 1-4 by using the formula given below. There are two types of dependent variable: existing business development and new business development. Thus:

$$Y = b_0 + b_1 \text{ HQOE market importance} + b_2 \text{ SBOE market importance} + b_3 \text{ HQOE subsidiary capability} + b_4 \text{ SBOE subsidiary capability}$$

where Y = strategic business unit performance.

#### ***7.3.4 Moderation variables: expatriate coordination via HCN managers***

##### **Expatriate coordination**

Although there have been various studies on expatriate ratio and structure, almost no studies have considered expatriate coordination. Thus, I developed the questionnaires

using an expatriate performance survey (Caligiuri, 1997) and case interviews. The insights from the interviews enabled me to divide expatriate coordination into individual expatriate coordination and expatriate coordination via HCN managers. Through the face-to-face interviews with expatriates and HCN managers, I identified that coordination activities have three aspects: 1) collecting information, 2) integrating different opinions, and 3) adjusting issues when matters go wrong.

I measured individual expatriate coordination for existing business by asking expatriate managers and HCN managers to evaluate three issues: 1) for existing business, the manager collects information from the local organisation and market by him- or herself, 2) for existing business, the manager integrate different opinions from the local organisation and market by him- or herself, and 3) for existing business, the manager makes readjustments and corrections when matters go wrong by him- or herself.

I measured expatriate coordination of existing business via HCN managers by asking for evaluations of the following three issues: 4) for existing business, the manager gathers information by monitoring and controlling local NS, 5) for existing business, the manager integrates different opinions of the local organisation and market by monitoring and controlling local NS, and 6) for existing business, the manager makes readjustments and corrections when matters go wrong by monitoring and controlling local NS. A similar



set of issues for expatriate coordination with regard to new business was also prepared. I measured individual expatriate coordination for new business by asking managers to evaluate the following three issues: 7) the manager collects information from head office by him- or herself when it comes to new business development, 8) the manager integrates opinions from various sources by him- or herself when it comes to new business development, and 9) the manager makes readjustments and corrections when matters go wrong by him- or herself when it comes to new business development. I measured expatriate coordination via HCN managers for new business by asking managers to evaluate a further three issues: 10) for new business development, the manager gathers information by monitoring and controlling local NS, 11) for new business development, the manager integrates opinions from various sources in the local organisation and market by monitoring and controlling local NS, and 12) for new business development, the manager makes readjustments and corrections when matters go wrong by monitoring and controlling NS. The foregoing issues were used in the survey for HCN managers; the wording was slightly modified for expatriate managers.

The answers to these issues regarding moderation variables from expatriate managers and HCN managers were averaged by each respective SBU. The moderation effect was analysed using the following formula:

$$Y = b_0 + b_1 \text{ HQOE market importance} + b_2 \text{ SBOE market importance} + b_3 \text{ HQOE subsidiary capability} + b_4 \text{ SBOE subsidiary capability} + b_5 \text{ ExpatsCor} + b_6 \text{ HQOE} \times \text{ExpatsCor} + b_7 \text{ SBOE} \times \text{ExpatsCor} + E$$

where Y = subsidiary SBU performance and ExpatsCor = expatriate coordination.

### ***7.3.5 Control variables***

In addition to the variables identified in the hypotheses, two factors with the potential to confound the hypotheses were added as control factors.

First, I included the establishment stage of the subsidiary as a control factor because the longer a subsidiary has been established, the greater the degree of transference of headquarters knowledge and the greater the extent of routinisation of operational processes (Delios & Beamish, 2001; Luo, 2003). I used the subsidiary's history since its establishment as an index of the establishment stage.

Second, I included the connection of business divisions with their key customer, the Toyota Motor Corporation, as a control factor. TTC has quite a number of businesses which have developed around the Toyota Motor Corporation's related business; however,

since acquiring other trading companies, TTC also has various business units which have less significant relationships with the Toyota Motor Corporation. Further, some TTC managers mentioned that there are differences between the business units which are strongly influenced, and those which are less influenced, by the Toyota Motor Corporation. In order to confirm the connection of each division with the Toyota Motor Corporation, we asked senior executives, managers in the Strategic Planning Department, and managers in the Global Human Resources Department about their categorisations of this factor and found that such categorisations were consistent.

### ***7.3.6 Data analysis procedures***

The data was analysed using STATA version 13.1. Three techniques were used for the purpose of purification: item to total correlation, coefficient alpha, and factor analysis (Nunnally, 1978).

## **8 ANALYSIS AND RESULTS OF PHASE II QUANTITATIVE RESEARCH**

### **8.1 Test of Hypotheses**

I used ordinary least squares (OLS) multiple regression analysis to test the study's hypotheses. Regarding Hypotheses 1 to 4, all variance inflation factors (VIFs) have

values lower than 5, indicating that there are no multicollinearity problems. Regarding Hypotheses 5 and 6, the values of the VIFs are more than 10; however, a high VIF for the product term in the interaction is not problematic (Edwards, 2009:144-146). The correlation statistics show the validity of each variable in this analysis. Hypotheses 1, 2, 3, and 4 examine the influence of the perception gap on subsidiary performance and Hypotheses 5 and 6 examine the interaction of expatriate coordination via HCN managers on Hypotheses 1 and 2. I prepared two sets of model tables. Table 8-2 describes the hypotheses regarding existing business (i.e. Hypotheses 1, 3, and 5) as dependent variables. Table 8-3 describes the hypotheses regarding new business (i.e. Hypotheses 2, 4, and 6) as dependent variables.<sup>iii</sup>

Hypothesis 1, which deals with the influence of perception gaps on the existing business performance in the subsidiary business unit, is divided into Hypotheses 1a and 1b. Hypothesis 1a proposes that subsidiary overestimation of subsidiary capability negatively influences the existing business performance of foreign subsidiary business units, while Hypothesis 1b proposes that headquarters overestimation of subsidiary capability positively influences the existing business performance of foreign subsidiary business units. Table 8-2 shows the control coefficient performance of model 1 and presents the results of the multiple regression analysis in model 2 pertaining to

Hypothesis 1. In these two hypotheses, the regression coefficient for Hypothesis 1a and Hypothesis 1b are -0.26 and 0.51 respectively, and the p-values of Hypothesis 1a and Hypothesis 1b are 0.076 and 0.095 respectively. Thus, Hypotheses 1a and 1b are marginally supported.

Hypothesis 3 proposes that subsidiary overestimation of the strategic importance of the local environment positively influences the existing business performance of foreign subsidiary business units. As model 3 in Table 8-2 shows, the regression coefficient of Hypothesis 3 is positive at 0.229, but the p-value is 0.24. Thus, Hypothesis 3 is not supported, although the direction of the regression coefficient is consistent with the hypothesis.

Hypothesis 2, which examines the influence of perception gaps on new business development performance in foreign subsidiary business units, is divided into Hypothesis 2a and Hypothesis 2b. Hypothesis 2a proposes that subsidiary overestimation of subsidiary capability negatively influences the new business development performance of foreign subsidiary business units, while Hypothesis 2b proposes that headquarters overestimation of subsidiary capability positively influences the new business development performance of foreign subsidiary business units. In Table 8-3, model 1 presents the control coefficients' performance. Model 2, shown in Table 8-3, presents the

results of the multiple regression analysis pertaining to Hypothesis 2. The regression coefficients for Hypothesis 2a and Hypothesis 2b are 0.02 and 0.80 respectively, and the p-values of Hypothesis 2a and Hypothesis 2b are 0.901 and 0.077 respectively. Thus, Hypothesis 2a is not supported and Hypothesis 2b is marginally supported.

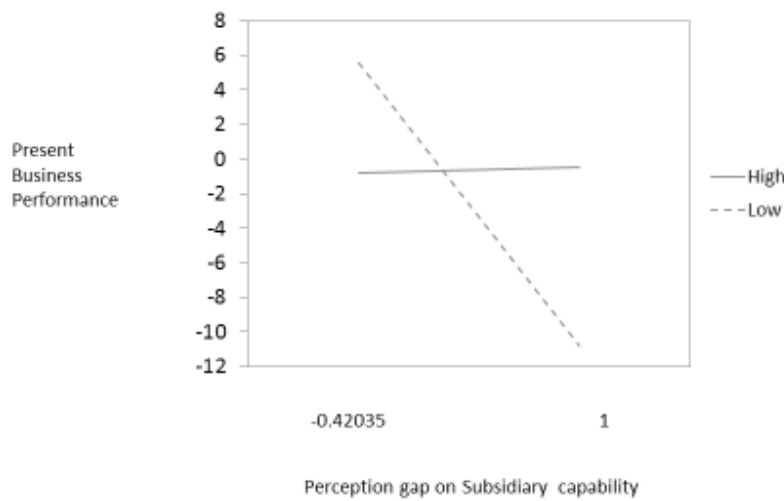
Hypothesis 4 proposes that subsidiary overestimation of the strategic importance of the local environment positively influences the new business development performance of foreign subsidiary business units. Model 3, shown in Table 8-3, presents the results of Hypothesis 4. The regression coefficient of Hypothesis 4 is 0.61 and the p-value is 0.037. Thus, Hypothesis 4 is supported.

While Hypotheses 1 to 4 use 49 samples, Hypotheses 5 and 6 use only 44, which is not enough for a robust analysis. However, I conducted quantitative analyses for Hypotheses 5 and 6 because of their small sample sizes.

With regard to Hypothesis 5, the direction of coefficient shows the same direction which is proposed by the hypothesis with significance. Thus, Hypothesis 5 corresponds to Hypothesis 1b. The main proposal of Hypothesis 1b is that headquarters overestimation positively influences the foreign subsidiary unit's existing business performance, a proposal which is marginally supported statistically. Hypothesis 5 proposes that the greater the amount of expatriate coordination via HCN managers, the greater the positive

influence of headquarters overestimation of subsidiary capability on the existing business performance of foreign subsidiary business units. The p-value of Hypothesis 5 is 0.000 and the regression coefficients with and without expatriate coordination are 3.04 and -12.85 respectively. Although it seems that Hypothesis 5 is supported by quantitative analysis, I describe the hypothesis as partially supported. The quantitative analysis supported the existence of a moderation effect and the direction was confirmed as Hypothesis 5 suggested. However, the quantitative analysis found that when expatriate coordination via HCN managers is low, the main effect on business unit performance is negative; and when expatriate coordination via HCN managers is high, the main effect on business unit performance is positive. Figure 8-1 is a graphical description of the moderation effect of Hypothesis 5. Since the quantitative result shows that the moderation effect becomes stronger as the perception gap increases, Hypothesis 5 should be modified as follows: 'Expatriate coordination via HCN managers positively moderates the influence of headquarters overestimation regarding subsidiary capability on subsidiary business unit performance.' Thus, Hypothesis 5 is partially supported.

**Figure 8-1: Graphical description of the result of Hypothesis 5**



X & Y axis: standard deviation

Hypot  
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 moderation

effect of expatriate coordination via HCN managers on the influence of headquarters overestimation of subsidiary capability on the subsidiary unit's new business development performance. Hypothesis 6 corresponds to Hypothesis 2b. The main proposal of Hypothesis 2b is that headquarters overestimation of subsidiary capability positively influences the subsidiary unit's new business development performance, a proposal which is statistically supported. Hypothesis 6 states that the greater the amount of expatriate coordination via HCN managers, the less positive the influence of headquarters overestimation of subsidiary capabilities on the new business development performance of foreign subsidiary business units. The p-value of Hypothesis 6 is 0.121 and the regression coefficients with and without expatriate coordination are -1.91 and 6.39 respectively. Thus, Hypothesis 6 is not supported. Table 8-1 shows the basic statistics, including means, standard deviation, and the correlations of key variables.



**Table 8-1: Means, standard deviation, and correlations**

	Mean	S.D.	Min	Max	Existing business performance	Existing business performance	HQ overestimation on local environment importance	SB overestimation on local environment importance	HQ overestimation on SB capability	SB overestimation on SB capability	expats coordination via HCN in existing business	expats coordination via HCN in new business	Control: SB establishment	Control: Relations to Toyota business
Existing business performance	3.03	0.473	2	4.25	1.00									
Existing business performance	2.668	0.656	1.5	4.667	0.40 (0.00)	1.00								
HQ overestimation on local environment importance	0.342	0.428	0	1.667	-0.07 (0.64)	-0.04 (0.80)	1.00							
SB overestimation on local environment importance	0.206	0.366	0	1.667	0.14 (0.34)	0.27 (0.07)	-0.46 (0.00)	1.00						
HQ overestimation on SB capability	0.095	0.226	0	0.969	0.33 (0.02)	0.23 (0.11)	0.00 (0.99)	-0.11 (0.47)	1.00					
SB overestimation on SB capability	0.395	0.472	0	1.5	-0.30 (0.04)	-0.12 (0.42)	-0.12 (0.41)	-0.00 (0.98)	1.00					
expats coordination via HCN in existing business	3.696	0.734	1.833	5	0.04 (0.79)	-0.05 (0.76)	-0.39 (0.01)	0.24 (0.11)	0.04 (0.81)	0.06 (0.72)	1			
expats coordination via HCN in new business	3.248	0.953	1	5	0.09 (0.54)	0.18 (0.24)	-0.21 (0.17)	0.14 (0.37)	-0.05 (0.73)	-0.02 (0.89)	0.56 0	1.00		
Control: SB establishment	0.531	0.504	0	1	0.02 (0.89)	0.04 (0.79)	0.32 (0.02)	-0.19 (0.19)	0.05 (0.73)	0.01 (0.95)	-0.26 -0.09	-0.07 (0.65)	1.00	
Control: Relations to Toyota business	0.633	0.487	0	1	0.28 (0.05)	-0.17 (0.24)	-0.10 (0.50)	-0.01 (0.92)	0.02 (0.91)	0.17 (0.26)	0.16 -0.3	0.05 (0.76)	-0.04 (0.80)	1.00



Table 8-2: Results of OLS regression analysis (existing business performance model)

	(2)	(3)
VARIABLES	Existing business performance	Existing business performance
Headquarter overestimation on importance of local environments	-0.00611 (0.174)	-0.638 (0.622)
Expats coordination via HCN		-0.485** (0.219)
Headquarter overestimation on importance of local environments #Expats coordination via HCN		0.198 (0.167)
SB overestimation on importance of local environments	0.229 (0.194)	-0.155 (1.123)
SB overestimation on importance of local environments #Expats coordination via HCN		0.142 (0.266)
Headquarter overestimation on SB capability	0.512* (0.300)	-12.86*** (3.391)
Headquarter overestimation on SB capability #Expats coordination via HCN		3.406*** (0.873)
SB overestimation on SB capability	-0.265* (0.146)	-1.377 (0.882)
SB overestimation on SB capability #Expats coordination via HCN		0.273 (0.229)
Observations	49	45
R-squared	0.277	0.533

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

**Table 8-3: Results of OLS regression analysis (new business performance model)**

	(2)	(3)
VARIABLES	New business performance	New business performance
Headquarter overestimation on importance of local environments	0.137 (0.256)	1.413* (0.824)
Expats coordination via HCN		0.667** (0.273)
Headquarter overestimation on importance of local environments #Expats coordination via HCN		-0.397 (0.250)
SB overestimation on importance of local environments	0.617** (0.286)	2.612** (1.235)
SB overestimation on importance of local environments #Expats coordination via HCN		-0.579* (0.318)
Headquarter overestimation on SB capability	0.802* (0.443)	6.391* (3.627)
Headquarter overestimation on SB capability #Expats coordination via HCN		-1.920 (1.206)
SB overestimation on SB capability	0.0270 (0.215)	1.493 (1.170)
SB overestimation on SB capability #Expats coordination via HCN		-0.464 (0.348)
Observations	49	45
R-squared	0.181	0.287
Standard errors in parentheses		

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

## **8.2 Summary of Empirical Findings<sup>iv</sup> and Discussion**

This dissertation developed eight hypotheses, of which five are supported or marginally supported. Hypotheses 1, 2, 3, and 4 refer to the influence of headquarters–subsidiary perception gaps about the subsidiary’s role on foreign subsidiary business unit performance. Based on the case interviews, I developed a framework which integrates the subsidiary role and the perception gap directionality concepts and applies them in order to identify differences between existing business and new business in foreign subsidiary business units.

Hypothesis 1 refers to the influence of perception gaps regarding subsidiary capability on existing business performance at foreign subsidiary business units. Both Hypothesis 1a and Hypothesis 1b are marginally supported. Each hypothesis suggests how a perception gap influences subsidiary performance; further, Hypothesis 1a somewhat re-confirms what has been suggested by the literature. Hypothesis 1b provides a new perspective on perception gap studies by suggesting that a perception gap (i.e. headquarters overestimation) can positively influence the performance of foreign subsidiary business units. Further, Hypotheses 1a and 1b together suggest that the

influence of perception gaps differs depending on directionality. For existing business, although subsidiary overestimation of subsidiary capability negatively influences foreign subsidiary unit performance, headquarters overestimation of subsidiary capability positively influences it.

Hypothesis 2 refers to the influence of perception gaps regarding subsidiary capability on new business development performance at foreign subsidiary business units. While Hypothesis 2b is marginally supported, Hypothesis 2a is not supported. Interestingly, although the direction suggested by Hypothesis 2a is the same as suggested by the literature, quantitative analysis of Hypothesis 2a did not show clear directions, either positive or negative. Hypothesis 1a and Hypothesis 2a are essentially the same in what they suggest about subsidiary overestimation although the difference is the target business: Hypothesis 1a examines existing business performance and Hypothesis 2a examines new business development performance. Although the mechanism was not examined statistically, the case interviews revealed the difference in the dynamism between existing business and new business. One of the key reasons why subsidiary overestimation of subsidiary capability negatively influences the existing business performance of foreign subsidiary business units is the greater involvement or control by headquarters managers. However, one of the key reasons for the negative influence on

new business is the inadequate involvement of, or reaction from, headquarters managers. Headquarters managers' lack of interest may lower expectations for the new business development performance of a specific foreign subsidiary business unit and dilute the statistical results.

Hypotheses 1b and 2b refer to headquarters overestimation of subsidiary capability and both are marginally supported. The literature highlighted the differences in the characteristics and requirements between existing and new businesses (Ansoff, 1988; March, 1991). However, my statistical results suggest that headquarters overestimation positively influences both the existing and new business development performance of foreign subsidiary business units. Although the mechanism of this positive influence is not determined in this study, one interesting point is that headquarters managers often mentioned that while an absolute level of capability is important, the mindset regarding one's capability is also quite important. Since TTC managers regard an understanding of corporate culture as a part of capability, they tend to overestimate subsidiary capability when they find that HCN managers have a 'sense of humility' and 'trustworthiness'. It seems that this kind of trustworthiness is a source of a constructive 'headquarters–subsidiary relationship', which improves performance in existing and new businesses for TTC abroad. Moreover, TTC managers agree on the importance of



headquarters support, subsidiary autonomy, and knowledge flow as key influences on subsidiary performance. They sometimes mention the quality of such support, knowledge, and communication. As discussed in the case interview section, headquarters support which does not fit local requirements or reflect the local environment sometimes negatively influences subsidiary performance. Further, mutual trust appears to be a key factor in improving the quality of support, knowledge flow, and communication in headquarters–subsidiary relationships.

Hypotheses 3 and 4 refer to the influence of subsidiary overestimation regarding the strategic importance of the local environment on foreign subsidiary business units. Hypothesis 3 examines the influence on existing business and Hypothesis 4 considers new business development performance. The outcomes of the testing of Hypotheses 3 and 4 differ from the literature's suggestions. While Hypothesis 3 is not supported, Hypothesis 4 is supported statistically. Hypothesis 3 did not reach sufficient significance, perhaps because of the time lag between the perception gap and subsidiary business unit performance. Most of TTC's existing business is highly integrated within the local subsidiary organisation, local customers, local partners, and headquarters, and it would take time for the impact of a perception gap to be reflected in business performance.

Several authors have identified the positive aspects of perception gaps but none

have tested these positive aspects statistically. Subsidiary overestimation has been found to have a negative influence for many reasons, including tighter headquarters control (Birkinshaw et al., 2000), conflict between headquarters and the subsidiary (Schmid & Daniel, 2011), tense and frustrated local managers (Asakawa, 2001), and inefficient knowledge flow (Arvidsson, 1999). As described in Chapter 3, the case interviews revealed that some of these factors do not apply to TTC or do not produce a significantly negative effect on the headquarters–subsidiary relationship. The case interviews showed how subsidiary overestimation positively influences both existing and new business. HCN managers are not 'demotivated by less support' but 'appreciated not being disturbed by headquarters involvement'. Why did this study produce results which differ from those in the literature, though?

Several explanations are possible. I have already explained that the different sample companies in the literature and the present study may have led to the different directions described in Chapter 6. Another explanation may relate to the research gap. Prior studies have examined the consequences of perception gaps partially and have not examined performance directly; thus, some of the consequences suggested by the literature may exist and have either a negative or positive direction. However, the interrelationships among these consequences may lead to different results to those that

each consequence suggests. As described in Chapter 6, subsidiary overestimation of the strategic importance of local environments sometimes positively influences the motivation of HCN managers, but subsidiary overestimation does not lead to tight headquarters control over existing business.

Hypotheses 5 and 6 refer to the moderation effect through expatriate coordination via HCN managers on the headquarters–subsidiary relationship. While Hypothesis 5 is partially supported, Hypothesis 6 is not supported.

Hypotheses 5 and 6 correspond to Hypotheses 1b and 2b respectively. The positive influence of headquarters overestimation of subsidiary performance on both existing and new businesses in foreign subsidiary business units is supported in Hypotheses 1b and 2b. Although little difference is found between existing business and new business in Hypotheses 1, 2, 3, and 4, differences are seen between existing and new business regarding coordination via HCN managers. Coordination such as consensus making among stakeholders is usually managed by expatriates in TTC because they have networks and background knowledge of the major stakeholders. Expatriate managers use HCN managers for coordination when they believe that the headquarters managers respect the capabilities of the HCN managers. In the case interviews, expatriate managers endorsed this approach regarding existing business coordination. In addition, statistical

analysis confirmed that the use of HCN managers for existing business coordination has a positive moderation effect (as intended by the expatriate managers) because the expatriate managers can estimate fairly accurately how the headquarters managers regard the HCN managers. The qualitative analysis of Hypothesis 5 also suggested that while the main effect is positive when expatriate coordination via HCN managers is high, the main effect is negative when expatriate coordination via HCN managers is low. However, Hypothesis 1b corresponds to Hypothesis 5 and suggests that headquarters overestimation of HCN managers' capability positively influences the existing business performance of foreign subsidiary business units. One reason why quantitative analysis supported Hypothesis 1b may be that the level of expatriate coordination has been constantly high in recent years, as suggested in the interviews.

However, Hypothesis 6 shows the opposite direction because headquarters managers often mentioned that they had come to realise that they had overestimated the capability of HCN managers through intensive communication with them during new business-related coordination. Hypothesis 6 did not achieve significance, but the directions of the coefficients in the statistical analysis accord with the directions which the hypothesis proposed. This may be the result of the time lag because it can take time for headquarters managers to adjust their attitude toward foreign subsidiary business units.

Also, the size of this interaction analysis sample was 44, a figure which is less than that of the sample for Hypotheses 1 to 4. The smaller sample size may be one of the reasons for the lower p-value.

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<sup>i</sup> IB sometimes uses the terms conflict and friction interchangeably (Enatsu, 2008).

<sup>ii</sup> Although the employment situation is changing, so-called 'Japanese management' can still be observed in Japanese companies. For example, lifetime employment covers roughly 20% of the Japanese labour force. Further, job mobility remains considerably lower in Japan than in other economies (particularly the US) (Ono, 2007).

<sup>iii</sup> Note here that the dependent variables are in five categories. I considered using ordered logit regression analysis but used OLS regression analysis instead. I assume here that the distance between response categories is equal.

<sup>iv</sup> I cannot rule out the possibility that failure to achieve statistical significance may be the outcome of a small sample size.

## **9 IMPLICATIONS, LIMITATIONS, AND FUTURE DIRECTIONS**

This study investigated how perception gaps between MNC headquarters and subsidiary HCN managers influence the performance of foreign subsidiary SBUs using a mixed-method approach with TTC as a sample company. Chapter 1 explained the rationale of the study. The study recognised that the relationships between headquarters–subsidiary perception gaps and subsidiary performance are significant both theoretically and practically; yet these constructs are relatively neglected in the field of MNC research. Consequently, this study sought to integrate relevant theory and the findings from the case interviews in order to develop a meaningful approach to investigating headquarters–subsidiary perception gaps and thus validate a research model which links the roles of expatriates and HCN managers.

Chapter 2 reviewed the literature and presented the theoretical background for the study. Several research gaps were identified concerning perception gaps, subsidiary role, subsidiary performance, and the expatriate role. Chapter 3 then explained the overall research method and the mixed-method approach which was applied.

Chapter 4 presented the Phase I qualitative research design and method. A detailed descriptive case study on TTC was also provided as a background for the case interview analysis. Chapter 5 discussed the findings of the case interviews, most of which

corresponded to the theoretical gaps mentioned in Chapter 2. The research framework and eight hypotheses were developed in Chapter 6. Some of the hypotheses proposed directions which differed from those suggested in the literature. Chapter 7 described the research methodology in the Phase II quantitative research. Chapter 8 focused on the data analysis procedures. I also reported the findings.

In this final chapter, I first interpret and discuss the findings in light of the extant theory and the research questions with reference to the case interviews. I then describe theoretical and practical contributions, and conclude by examining the limitations of this research and possible directions for future research.

The main thesis of the research, as pointed out in Chapter 1, is that headquarters–subsidiary perception gaps are a significant factor in foreign subsidiary business unit performance but that their consequences differ according to directionality, subsidiary role, and type of business activity. Another key point is the importance of expatriate coordination, especially via HCN managers; however, the moderation effect of HCN managers differs according to business type.

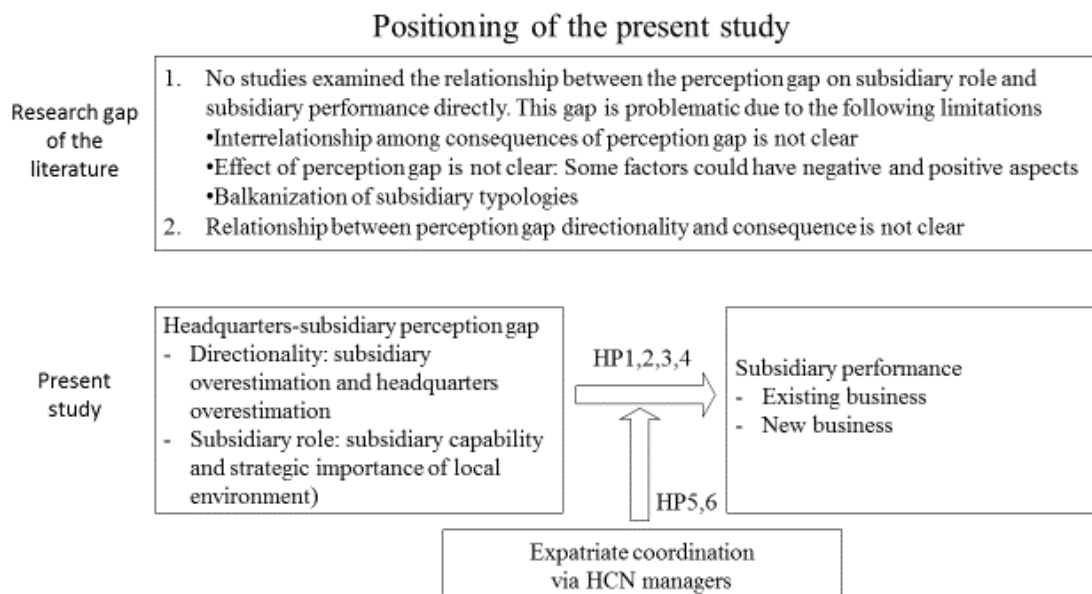
Although not all the hypotheses were supported statistically, the study confirmed several findings regarding headquarters–subsidiary perception gaps.

## 9.1 Theoretical Implications

This dissertation has made several contributions to the understanding of perception gaps with regard to subsidiary roles between headquarters and subsidiaries.

The first contribution is the use of both qualitative and quantitative research to clarify the relationship between the headquarters–subsidiary perception gap regarding the subsidiary’s role and performance. Instead of examining the direct consequences of the perception gaps, the study linked perception gaps and subsidiary performance (as most of the literature has done) and examined the influence of perception gaps on foreign subsidiary business unit performance directly, as illustrated in Figure 9-1.

**Figure 9-1: Comparison between the literature and the present study**





The quantitative questionnaire confirmed that: 1) headquarters overestimation of subsidiary capability positively influences both the existing and new business performance of foreign subsidiary business units; 2) subsidiary overestimation of subsidiary capability negatively influences the existing business performance of foreign subsidiary business units; and 3) subsidiary overestimation of the strategic importance of the local environment positively influences the new business development performance of subsidiary business units. This relationship was examined through a questionnaire survey involving 258 participants in nine countries and 15 business units.

While some of the findings accord with the directions suggested in the literature, other findings contradicted the literature or confirmed directions which were implied but not examined. Although subsidiary overestimation has been found to cause negative consequences for headquarters-subsidary relationships (Arvidsson, 1999; Asakawa, 2001; Birkinshaw et al., 2000; Chini et al., 2005; Daniel, 2010), the quantitative analysis did not confirm that subsidiary overestimation negatively influences foreign subsidiary business unit performance in either existing or new business. However, I found that subsidiary overestimation of the importance of the local environment positively influences the new business development of subsidiary SBUs. These findings may prompt further studies on the relationship between perception gaps and subsidiary

performance.

This study's second major contribution is the provision of a general model which links subsidiary roles, perception gaps, directionality, and subsidiary performance and which integrates several theoretical constructs. Despite the current scholarly awareness of perception gaps with regard to subsidiary roles, few studies have attempted to operationalise subsidiary role dimension, perception gap directionality, and subsidiary business performance. This study identified two key subsidiary role dimensions from the perspectives of MNC managers: subsidiary capability and the strategic importance of local environments. I then integrated these dimensions with perception gap directionality, subsidiary overestimation, and headquarters overestimation. I also divided subsidiary performance into existing business and new business and applied the integrated framework. To shed light on the connections among these constructs, I adopted a grounded theory approach and interviewed more than 130 managers and executives working at headquarters and in subsidiaries. I then collected their comments and reconciled them with concepts from the research before producing my three-dimensional integrated model. My model enables an examination of the ways in which perception gaps regarding the strategic importance of the local environment and subsidiary capabilities operate differently according to headquarters overestimation and subsidiary

overestimation. The third dimension of this model helps to examine the difference in subsidiary business unit performance between existing and new business.

This model revealed that the perception gap regarding subsidiary role is not a simple construct which always produces the same outcome. This study's approach to the influence of perception gaps on subsidiary performance can be viewed as a preliminary step in operationalising the strategic context of perception gaps regarding subsidiary roles.

The study's third contribution is identifying HCN managers as a focal point for examining the perception gap between headquarters and a subsidiary. Most studies do not distinguish between expatriate and HCN managers in subsidiaries. I have discovered the importance of HCN managers in both project execution and strategy formulation in subsidiaries through interviews with 134 TTC managers. Because expatriates are ambivalent and can take various positions between headquarters interests and local interests, it is sometimes misleading to judge the perception gap between headquarters and subsidiaries by examining headquarters managers and expatriate managers.

Fourth, this study contributes to the literature by considering expatriate coordination, especially via HCN managers. This is the strategy which an organisation's units deploy in order to moderate the relationship between perception gaps and subsidiary

performance. Several ways exist to manage the perception gaps between headquarters and subsidiary HCN managers. The interviews suggested that expatriate coordination is one of the most plausible measures for perception gaps and subsidiary performance and has reasonable flexibility. The increasing complexity of international business and business expansion may exceed the capacity of expatriates. Such capacity limitation of expatriates and the movement toward transnational or meta-national management enhance the concept of expatriate coordination via HCN managers. Although some literature suggested that there is evidence that expatriates are no more loyal to their company than HCNs (Banai & Reisel, 1993), HCNs are regarded as unsuitable for coordination because they are less committed to corporate strategy than expatriates (Black & Gregersen, 1992; Kobrin, 1988).

Although not all the findings of the case interviews were supported by the quantitative analysis, this research clarified when and how expatriate coordination moderates the headquarters–subsidiary relationship and performance. My finding that expatriate coordination via HCN managers has both positive and negative effects should play an important role in developing theory into implementation.

This study's fifth contribution is that the interviews revealed the mechanism of some of the relationships among the consequences of perception gaps, such as

headquarters control, motivation, conflicts, and other intermediate factors. For example, subsidiary overestimation of the strategic importance of the local environment in existing business does not increase headquarters support or control unless headquarters managers are concerned about the subsidiary's capability. Moreover, HCN managers have greater motivation when they perceive a good opportunity; if not impeded by headquarters intervention, these managers can drive higher performance. The interviews also found that headquarters control is not always strengthened in a high perception-gap situation and that stronger headquarters support does not always improve subsidiary performance. Although these dynamics were not confirmed in the quantitative analysis, the case interviews revealed the complex dynamism of these intermediate consequences to some extent.

## **9.2 Practical Implications**

The practical implications of this research should be quite apparent. Perception gaps are regarded as a critical issue for managers at both headquarters and in subsidiaries. Since various types of perception gap exist in diverse fields, it is difficult for managers to cope with all of them. This research provides these managers with some guidelines for perception gap management, specifying where and what type of perception gaps they

should observe. This research shows that although practitioners often mention perception gap problems, not all perception gaps negatively affect performance. I found that some types of perception gap positively influence foreign subsidiary business unit performance, such as headquarters overestimation of subsidiary capabilities in new business development, and that other types do not. Thus, managers in MNCs could prioritise their activities in order to optimise perception gaps between headquarters and subsidiaries. These findings are not entirely new. Earlier studies have pointed out the positive potential of overestimation with regard to perception gaps between headquarters and subsidiaries (Arvidsson, 1999). Nonetheless, this study provides new evidence that headquarters overestimation positively influences subsidiary performance under certain conditions. Moreover, it also shows that subsidiary overestimation, regarded as a source of friction, positively influences subsidiary performance in certain situations. Further, although its sample is small, this research indicates that expatriates should leverage HCN managers for their coordination. Consequently, these results suggest that MNC managers should take four initiatives.

First, expatriates and HCN managers should pay attention to how headquarters managers perceive subsidiary roles and compare these perceptions with their own. At the same time, headquarters managers should pay attention to how their messages, intentions,

and expectations are perceived by HCN managers. This may sound commonsensical for international management, but very few MNC managers spend time thinking about how other managers perceive their expectations.

Second, MNC managers should leave perception gaps alone in areas where they lead to positive outcomes and pay extra attention to areas where perception gaps could negatively influence performance.

Third, headquarters managers should pay attention not only to their communication with expatriates but also to the perceptions of HCN managers. Ideally, headquarters managers should communicate directly with HCN managers; however, it may be difficult to do so in reality. Thus, they should learn about HCN managers through discussions with expatriates.

Fourth, expatriate managers should selectively use HCN managers for their coordination because doing so could expand expatriates' capacity and improve subsidiary performance. Specifically, expatriates should coordinate via HCN managers with regard to existing business when headquarters rates HCN managers' capabilities higher than they rate themselves. Expatriate managers sometimes use HCN managers for coordination in order to train them. At such times, expatriate managers should pay special attention to the process. Further, the research suggests that coordination via HCN

managers reduces the positive influence of headquarters overestimation on subsidiary capabilities in new business development; thus, expatriate managers should be cautious about the use of HCN managers in new business development.

### **9.3 Limitations and Future Directions**

This study has several limitations. First, it focuses on the activities of just one company, TTC. Although TTC has a wide-ranging business portfolio with wide international coverage which enabled multiple case studies, the results could be conditioned by the propensities of specific national and organisational cultures. Future research could provide insight into the applicability of this study's results to samples drawn from other host country settings. It would be particularly beneficial to include MNCs from both low- and high-context communication countries, such as Western and Asian MNCs.

Second, the samples are too small to show robust results. Although 258 managers answered the Web-based questionnaire survey, the quantitative analysis was conducted using dyad and triad datasets, with headquarters and HCN managers, and headquarters, HCN, and expatriate managers, in the same SBU; thus, only 49 dyad and 45 triad datasets were considered. It is extremely difficult to gather data from a headquarters, even with the strong support of the senior executives of the company. Expatriate and HCN managers in



the same unit are also located all over the world. Thus, future research needs a more strategic approach to data gathering. In this regard, it may be helpful to prepare questionnaires in each local language.

Third, the quantitative data were cross-sectional and could not include longitudinal data. Some perception gap factors take more time than others to influence performance. For example, Hypothesis 3 may not have been supported because the process which begins with subsidiary overestimation of the strategic importance of the local environment with regard to existing business may take more time before an obvious difference in performance is evident. Thus, it is desirable to conduct research consecutively in order to examine a panel of data.

Fourth, although two important subsidiary roles critical to subsidiary performance from the perspective of TTC managers—the strategic importance of the local environment and subsidiary capability— were examined, I do not consider the framework of this research to be comprehensive. For example, knowledge flow is a key subsidiary role factor which could be considered in future research. As I explained in the theory-building section, knowledge flow was dropped from the study because of the complexity of the construct (knowledge flow could be observed as an influencer, a subsidiary role, and a consequence). Dedicated research on perception gaps and

knowledge flow may be needed.

Finally, the research design did not test causality in detail. Since the objective of this study was to link perception gaps and subsidiary performance, it did not examine the causality among various sub-consequences such as headquarters support, headquarters response, headquarters control, the motivation and entrepreneurship of HCN managers, and headquarters–subsidiary coordination. The case interviews suggested that some of these sub-consequences influence each other in a complex manner. Since this research short-listed the potential sub-consequences according to the perception gaps, future research could examine the relationships among these sub-consequences.

This study used the concept of perception gaps between headquarters and subsidiaries to shed new light on the dynamics in headquarters–subsidiary relationships. This fresh approach enabled the study to develop rich insights into the mechanisms by which subsidiary SBUs can achieve higher performance. Unlike prior studies, which focus on the negative side of perception gaps, this study explains how MNC managers can prioritise headquarters–subsidiary communication and how expatriate managers should manage HCN managers.

#### **9.4 Conclusion**

This dissertation begins with a simple question which often arises in discussions with senior executives and managers in MNCs: 'Does a perception gap really matter to subsidiary performance?' Managers in MNCs have often talked about how problematic headquarters–subsidiary perception gaps are and how they wish to close such gaps. However, there are so many perception gap issues that managers often fail to react to them effectively. Further, although most of the literature has highlighted the negative influence of headquarters–subsidiary perception gaps, some of it has implied that there are also positive influences, especially from headquarters overestimation; however, no study has yet examined them.

Through this study, I confirmed not only when headquarters–perception gaps negatively influence foreign subsidiary business unit performance but also when they positively influence it. An MNC with no perception gap at all may be one where central control is working perfectly well to ensure smooth local operations; however, such an organisation may not be able to leverage innovation opportunities abroad. However, constant perception gaps with adjustment mechanisms may provide the raw material for reviewing current strategies and reviewing ways of executing business and enhancing innovation.

This study partially examined the way in which expatriates serve as adjustment mechanisms. However, international expansion and increasing complexity may require MNCs to reconsider their adjustment mechanisms. I found that TTC is exactly at such a stage. The company is trying various experiments in its search for the next-generation international management model and has started to study how it can leverage perception gaps into triggers for positive business cycles. I assume that other MNCs from high-context countries are facing a similar situation. This study may help them with their perception gap management.

## APPENDIX

### Appendix1: Control factor 1

	US	Thailand	EU	China	Singapore	Inonesia	India	Africa
Establishment year	1953	1957	1968	1971	1975	1990	1999	1999
Established	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>				
Not fully established yet					<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

### Appendix2: Control factor 2

	Control: Relationship with main business	
	High	Low
1 Consumer products/ healthcare		<input type="radio"/>
2 Lifestyle		<input type="radio"/>
3 Insurance		<input type="radio"/>
4 Food & Agribusiness		<input type="radio"/>
5 Electronics		<input type="radio"/>
6 Chemical 1		<input type="radio"/>
7 Chemical2	<input type="radio"/>	
8 Machinery/ Infrastructure	<input type="radio"/>	
9 Energy		<input type="radio"/>
10 Automotive body machinery	<input type="radio"/>	
11 Automotive	<input type="radio"/>	
12 Industry materials/Automotive parts & Accessories	<input type="radio"/>	
13 Global parts, Parts assembly	<input type="radio"/>	
14 Logistics	<input type="radio"/>	
15 Metal resources/ Non-ferrous meta	<input type="radio"/>	
16 Steel Products sales	<input type="radio"/>	
17 Steel Sheet & Plate(for Auto)	<input type="radio"/>	

**Appendix 3:** The distribution of the questionnaire respondents

Country	Target	Sent	Answered	Not returned
US	Expatriate	15	11	5
	NS-Japanese	5	2	3
	NS-English	27	16	11
EU	Expatriate	14	14	0
	NS-Japanese	2	0	2
	NS-English	16	13	3
Singapore	Expatriate	9	6	3
	NS-English	18	10	8
Indonesia	Expatriate	16	5	11
	NS-English	14	6	9
Thai	Expatriate	21	10	12
	NS-English	19	10	10
India	Expatriate	13	8	5
	NS-English	15	8	8
China	Expatriate	20	16	4
	NS-Japanese	26	16	8
	NS-English		2	
Africa	Expatriate	6	2	4
	NS-English	12	11	1
HQ		124	94	80
Total	Expatriate	114	72	42
	National staff	154	92	62
	Headquarter	124	94	30
	Total	392	258	134

## **Appendix 4-1:**

(Questionnaire for National Staff)

### TTC International Management Survey (Questionnaire for TTC NS)

2014

This questionnaire survey is conducted as a part of academic research supported by Toyota Tsusho. The purpose of this study is to enhance our understanding of the challenges subsidiary businesses face, and to come up with some useful insights on how Head Office and subsidiary managers could better cope with these challenges. This survey especially aims to explore the influence of the relationship with Head Office and foreign subsidiaries on the performance of foreign subsidiaries. Therefore, this questionnaire asks for your views on various aspects of subsidiary management.

As some questions are intentionally similar for statistical analysis purposes, please answer all questions although some appear to be duplicates. In this questionnaire, we introduce the concept of a “local business unit.” This means the business unit to which you belong within your subsidiary.

All responses will be kept strictly confidential. The questionnaire has an identification number so that only academics can identify individual copies. Your name will not appear on the questionnaire, nor will your answers be released to anybody other than the academic analysis team.

Please accept my utmost appreciation for your help in completing this questionnaire.

Jusuke JJ Ikegami  
Waseda University

Mail: [jjikegami@waseda.jp](mailto:jjikegami@waseda.jp)

Tel: 81-(0)3-5286-8257 (office)

## Questionnaire for local NS Managers

This research does not require an official statement, therefore please answer how you “perceive” the current situation.

1. Performance: Please evaluate your local business unit’s performance in the areas described below, ranking it from 1 to 5 (1= far better than planned [exceeds expectations/industry norms]; 2=above expectations, better than planned; 3=on par with industry expectations; 4=below expectations, worse than planned; 5= far below expectations NA = Not applicable).
  - 1.1 Overall profitability level compared to industry norms
  - 1.2 Overall profitability level compared to expectations
  - 1.3 Overall profit growth ratio compared to expectations
  - 1.4 Market share level of existing business compared to your expectations
  - 1.5 Productivity level of existing business compared to your expectations
  - 1.6 Cost and quality level of existing business compared to your expectations
  - 1.7 Operation level of existing business compared to your expectations
  - 1.8 Business penetration level to existing customers compared to your expectations
  - 1.9 New business growth status compared to your expectations
  - 1.10 New customer development level compared to your expectations
  - 1.11 Overall preparation level for new business development compared to your expectations
  - 1.12 New service/ product development status compared to your expectations
  - 1.13 Contribution to other departments
  - 1.14 Overall performance of new business
  - 1.15 Overall performance of existing business
2. Subsidiary role estimation: Please evaluate the importance of your local business unit in comparison with other divisions, ranking it from 1 to 5 (1=not at all important; 2=low; 3=important to some extent; 4=high importance, 5=very high) Please choose the number that best represents your answer in each of the following categories:
  - 2.1 Profit volume
  - 2.2 Information(gathering/dispatching) about marketing activities



- 2.3 Maintaining important relations with other corporate units (internal corporate network)
3. Capability: Please evaluate from 1 to 5 the capability of your local business unit (1=not at all capable; 2=low capability; 3=capable to some extent; 4=high capability; 5=very high capability) and choose the number that best represents your answer for each category.
- 3.1 Research and Development (new business development)
  - 3.2 Production of goods and/or services
  - 3.3 Marketing and/ or sales (customer development)
  - 3.4 Logistics and/or distribution (operations execution)
  - 3.5 Purchasing
  - 3.6 Human Resources management
  - 3.7 General management
  - 3.8 Partner development
4. Corporate culture : How ingrained do you believe the corporate culture of Toyota Tsusho is within your business unit? (1=very high; 2=high; 3=so-so; 4=low; 5=very low).
5. Corporate culture : How ingrained are the ways of Toyota Tsusho within your local business unit in each of the following categories? Please choose from 1 to 5 (1=very high; 2=high; 3=so-so; 4=low; 5=very low):
- 5.1 Genchi, Genbutsu, Genjitsu
  - 5.2 Team Power
  - 5.3 Shokon

Knowledge flow: Knowledge flow refers to the transfer of expertise, skills, solutions or strategically important market data. First, the knowledge which your local business unit receives from Head Office [HO] (and other units) is taken into account (6. Knowledge inflow). Then the knowledge your local business unit provides to Head Office (and other business units) will be taken into account (7. Knowledge outflow).

6. Knowledge inflow (from HO to subsidiary): Please indicate to what extent (1=to a very high extent; 2=to a high extent; 3=so-so; 4=to a low extent; 5=to a very low extent) Head Office communicates with each local business unit in the following

areas. Please choose the number that best represents your answer for each category.

6.1 Research and Development (new service business development)

6.2 Production (and delivery) of goods and/or services

6.3 Marketing and/or sales (customer development)

6.4 Logistics and/or distribution (operations execution)

6.5 Purchasing

6.6 Human Resources management

6.7 General management

6.8 Partner development

6.9 Corporate / department direction and strategy

7. Knowledge outflow: Please indicate to what extent (1=to a very high extent; 2=to a high extent; 3=so-so; 4=to a low extent; 5=to a very low extent) each local business unit communicates with Head Office in the following areas. Please choose the number that best represents your answer for each category.

7.1 Research and Development (new service business development)

7.2 Production (and delivery) of goods and/ or services

7.3 Marketing and/ or sales (customer development)

7.4 Logistics and/or distribution (operations execution)

7.5 Purchasing

7.6 Human Resources management

7.7 General management

7.8 Partner development

7.9 Corporate / department direction and strategy

8. Head Office control and Head Office-subsidiary cooperation: Regarding the current relationship between Head Office and NS in local business units, please indicate the extent to which you agree or disagree (1=totally disagree; 2=somewhat disagree; 3=neither disagree nor agree; 4=somewhat agree; 5=totally agree). Please choose the number that best represents your answer for each category.

8.1 The local NS of a subsidiary can choose its suppliers without consulting the global management (Head Office)

8.2 The local NS of a subsidiary can change its organisational structure without consulting global management (Head Office)

8.3 Over time, the local NS of local business units have been gradually obtaining more autonomy from the global management (Head Office)

- 8.4 The interests of the global management (Head Office) and local NS of a subsidiary are usually identical with regards to the size and direction of subsidiary investments
  - 8.5 The interests of the global management (Head Office) and local NS of a subsidiary are usually identical with regards to purchasing
  - 8.6 The local NS of a foreign subsidiary and global management (Head Office) are in complete agreement on the subsidiary's role in the relationship
  - 8.7 In general, national managers and staff in the local business unit are highly motivated
  - 8.8 In general, the motivation of national managers and staff in the local business unit has increased over the past few years
9. Relationship in decision making between Head Office and NS managers. Please evaluate how much influence Head Office typically has on the sample decisions given below from 1 to 5 in terms of (1= your (NS manager's) decision; 2=your decision, with some influence from Head Office; 3=equal influence on decision; 4=Head Office decision with some influence from NS manager; 5=Head Office decision) Please choose the number that best represents your answer for each category.
- 9.1 Extension of credit to a major customer
  - 9.2 Product/service introduction to your local market
  - 9.3 Training programs in your company
  - 9.4 Hiring of operational personnel
  - 9.5 Setting sales and profit targets
  - 9.6 Changing operational processes
  - 9.7 Quality control norms
  - 9.8 Selecting business partners
10. Relationship in decision making between Japanese expatriate and NS managers. Please evaluate how much influence Japanese expatriate typically has on the sample decisions given below from 1 to 5 in terms of (1= your (NS manager's) decision; 2=your decision, with some influence from Japanese expatriates; 3=equal influence on decision; 4= Japanese expatriates decision with some influence from NS manager; 5= Japanese expatriates decision) Please choose the number that best represents your answer for each category.

- 10.1 Extension of credit to a major customer
  - 10.2 Product/service introduction to your local market
  - 10.3 Training programs in your company
  - 10.4 Hiring of operational personnel
  - 10.5 Setting sales and profit targets
  - 10.6 Changing operational processes
  - 10.7 Quality control norms
  - 10.8 Selecting business partners
11. Problem solving: Please indicate how difficult you find it to solve each of the following problems in managing your local business unit from 1 to 5 in terms of (1=very easy; 2=easy; 3=so-so; 4=difficult; 5=very difficult). Please choose the number that best represents your answer for each category.
- 11.1 Misunderstandings between Head Office and the local business unit
  - 11.2 Lack of communication between Head Office and the local business unit
  - 11.3 Creation of shared value between Head Office and the local business unit
  - 11.4 Excessive control by Head Office
  - 11.5 Lack of support from Head Office (new)
  - 11.6 Cross-cultural differences
  - 11.7 Language barriers
  - 11.8 Keeping informed and familiarized with various instructions from Head Office to all local staff
12. Expatriate behavior: Please rank the behavior of the Japanese expatriate of your business unit (1=not at all; 2=to some extent; 3=so-so; 4=a lot; 5=quite a lot) and choose the number that best represents your answer for each category.
- 12.1 For existing business, the manager collects information from the local organisation and market by themselves
  - 12.2 For existing business, the manager integrates different opinions from the local organisation and market by themselves
  - 12.3 For existing business, makes readjustments and corrections when things go wrong by themselves
  - 12.4 For existing business, gathers information by monitoring and controlling local NS
  - 12.5 For existing business, integrates different opinions in the local organisation and market by monitoring and controlling local NS

- 12.6 For existing business, makes readjustments and corrections when things go wrong by monitoring and controlling local NS
- 12.7 Collects information from Head Office by themselves when it comes to new business development
- 12.8 Integrates opinions from a variety of sources by themselves when it comes to new business development
- 12.9 Makes readjustments and corrections when things go wrong by themselves when it comes to new business development
- 12.10 For new business development, gathers information by monitoring and controlling local NS
- 12.11 For new business development, integrates opinions from a variety of sources in the local organisation and market by monitoring and controlling local NS
- 12.12 For new business development, makes readjustments and corrections when things by monitoring and controlling NS
- 12.13 Educating local NS, mainly for existing business
- 12.14 Educating local NS mainly for new business development

13. Please write the full name of the General Manager (Bucho) and Group Leader to whom you report at Head Office. Your personal data will not be identified by them.

GM/ Bucho (Family name:            First name:            )

Group leader (Family name:            First name:            )

Other (Family name:            First name:            )

14. In this section, please tell us about your background and answer the following questions.

14.1 Your business unit

14.2 Region which you belong (    ):

14.3 Number of subordinates reporting to you

14.4 Your nationality

14.5 Your job title: (General manager, manager,)

14.6 How many years have you worked in this company (including Head Office and subsidiaries)? \_\_\_\_\_

14.7 In which year were you born? (*please enter year*) ----- 19

14.8 Are you (*please circle*) ----- Male / Female

14.9 In how many countries you have worked? (    )

14.10 How many years have you have been working overseas? ( Y)

## Appendix 4-2 : Questionnaire for Expatriates

質問票 (C)

海外子会社・本社の意識調査に関する質問票 (海外駐在の方向け)

パイロットトライアル

2014年6月10日

この質問票は豊田通商様に関する学術調査の一環として行われております。本調査は、海外子会社経営に関する課題への理解を深め、その課題解決に対しての洞察を得ることを目的に、特に子会社と本社の関係性が子会社のパフォーマンスに及ぼす影響を中心に検証してゆきます。今回の調査結果の一部は社内にもフィードバックされますが、その際には500人を超えるサンプル数を基に統計処理を施された結果が提供されますので、特定の個人や部門が特定される形でのアウトプットはございません。

この質問票では海外子会社の管理、情報交流等に関するご回答者様の考えを様々な角度から質問をさせていただきます。統計解析を行う調査設計上、いくつかの質問は一見重複しているように見えるかもしれませんが、全ての質問にお答えください。この調査票では“子会社ビジネスユニット”という言葉が繰り返し使用されます。“子会社ビジネスユニット”は特定の地域子会社における事業を指します(例：中国におけるグロージ)。

全てのご回答は厳格な守秘性を持って管理されます。質問票はID番号で扱われるので回答者のお名前が質問票に表示されることはなく、また分析もアカデミックのみが行います。

お忙しい中、本調査の回答にご協力いただき有難うございます。

Jusuke JJ Ikegami

Waseda University and

Hitotsubashi University

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海外子会社・本社の意識調査に関する質問票 （海外駐在の方向け）

本質問票はご回答者様の“ご認識”に焦点を当てております。どのように考え・感じているかをご回答ください。

- 1 ご担当されている地域の各ビジネスユニットにおける下記のパフォーマンス項目に関して最もあてはまる番号を次の1から5中から選択してください。（1非常に低い、2低い、3まあまあ 4高い、5非常に高い、NA当てはまらない）
  - 1.1 総合的な利益率は業界標準に比べて
  - 1.2 総合的な利益率は計画値に比べて
  - 1.3 総合的な利益の伸びは計画値に比べて
  - 1.4 既存事業の市場シェアはあなたの期待値に比べて
  - 1.5 既存事業の生産性レベルはあなたの期待値に比べて
  - 1.6 既存事業のコストと品質レベルはあなたの期待値に比べて
  - 1.7 既存事業のオペレーションレベルはあなたの期待値に比べて
  - 1.8 既存顧客へのビジネス浸透度合いはあなたの期待値に比べて
  - 1.9 新事業の成長状況はあなたの期待値に比べて
  - 1.10 新規顧客開拓の状況はあなたの期待値に比べて
  - 1.11 新事業開発の準備レベルはあなたの期待値に比べて
  - 1.12 新サービス・製品開発状況はあなたの期待値に比べて
  - 1.13 他の部門への貢献状況はあなたの期待値に比べて
  - 1.14 新事業の総合的なパフォーマンスはあなたの期待値に比べて
  - 1.15 既存事業の総合的なパフォーマンスはあなたの期待値に比べて
  
- 2 各子会社ビジネスユニットは全社ビジネスの中で以下の点においてどの程度重要でしょうか。重要度を次の1～5の中から選択してください（1全く重要ではない、2重要ではない 3ある程度 4重要 5非常に重要）
  - 2.1 利益額において
  - 2.2 マーケティング活動における情報（収集・発信）面において
  - 2.3 他の事業ユニットとの重要な関係性を維持する点において
  
- 3 各子会社ビジネスユニットの以下の活動における能力は、どの程度と認識しているでしょうか。能力レベルを次の1～5の中から選択してください



(1 非常に低い 2 低い 3 まあまあ 4高い 5非常に高い)

- 3.1 研究開発 (新事業開発力含む)
- 3.2 製品 (および/もしくは) サービスの製造
- 3.3 マーケティング (および/もしくは) 営業
- 3.4 ロジスティクス (および/もしくは) 流通 (オペレーション含む)
- 3.5 購買
- 3.6 人材管理
- 3.7 マネジメント全般
- 3.8 パートナー開発

- 4 豊田通商の組織文化はどの程度あなたの属するビジネスユニットに浸透していると思いますか？

浸透度を次の1～5の中から選択してください (1 全く浸透していない  
2 浸透していない 3 ある程度 4 浸透している  
5 大変よく浸透している)

- 5 組織文化：

以下の3つの豊田通商ウェイは各子会社ユニットにどの程度浸透しているでしょうか。浸透度を次の1～5の中から選択してください。1 全く浸透していない 2 浸透していない 3 ある程度 4 浸透している  
5 大変よく浸透している

- 5.1 現地・現物・現実
- 5.2 チームパワー
- 5.3 商魂

ナレッジフロー：ナレッジフローには専門知識、スキル、解決策、戦略的に重要な市場データなどが含まれます。以下初めにナレッジフローの日本本社 (および他のビジネスユニット) から海外子会社への流入を質問し、次に海外子会社から日本本社 (および他のビジネスユニット) への流入を質問します：

- 6 以下のナレッジの要素において、本社から海外子会社ビジネスユニットへ向けてのナレッジ流入に関して最もあてはまるものを1から5の中から選択してください (1ほとんどない 2少ない 3ある程度

4 多い5大変多い)

- 6.1 研究開発 (新事業開発力含む)
- 6.2 製品 (および/もしくは) サービスの製造

- 6.3 マーケティング（および/もしくは）営業
- 6.4 ロジスティクス（および/もしくは）流通（オペレーション含む）
- 6.5 購買
- 6.6 人材管理
- 6.7 マネジメント全般
- 6.8 パートナー開発
- 6.9 全社および事業部としての方針と戦略

7 以下のナレッジの要素において、海外子会社ビジネスユニットから本社へ向けてナレッジ流入に関して最もあてはまるものを1から5の中から選択してください

(1ほとんどない 2少ない 3ある程度 4多い5大変多い)

- 7.1 研究開発（新事業開発力含む）
- 7.2 製品（および/もしくは）サービスの製造
- 7.3 マーケティング（および/もしくは）営業
- 7.4 ロジスティクス（および/もしくは）流通（オペレーション含む）
- 7.5 購買
- 7.6 人材管理
- 7.7 マネジメント全般
- 7.8 パートナー開発
- 7.9 全社および事業部としての方針と戦略

8 本社の管理と子会社との協調：現在の当社と海外子会社ビジネスユニットの関係における以下の各項目において、どの程度同意できるかに関するあなたの見解を最もあつわすものを1から5の番号で選択してください：

(1全く同意できない 2あまり同意できない 3どちらでもない

4ほぼ同意 5全く同意)

- 8.1 海外子会社ビジネスユニットはグローバルな事業管理者（本社主管部）に相談することなくサプライヤーを選択することができる
- 8.2 海外子会社ビジネスユニットはグローバルな事業管理者（本社主管部）に相談することなく組織を変更することができる
- 8.3 時の経過とともに海外子会社ビジネスユニットはグローバルな事業管理者（本社主管部）に対してより自律性を持ってきている
- 8.4 海外子会社の投資において、グローバルな事業管理側（本社主管部）と海外子会社ビジネスユニットの利害は通常一致している

- 8.5 海外子会社の購買行動においてグローバルな事業管理側（本社主管部）と海外子会社ビジネスユニットの利害は通常一致している
  - 8.6 海外子会社との関係性において、各海外子会社ビジネスユニットの役割に関してグローバルな事業管理側（本社主管部）と海外子会社ビジネスユニットの意見は通常一致している
  - 8.7 概して海外子会社ビジネスユニットの現地マネジャーとスタッフのモチベーションは高い
  - 8.8 概して海外子会社ビジネスユニットの現地マネジャーとスタッフのモチベーションは過去と比べて上がってきている
- 9 意思決定における本社と海外子会社ビジネスユニットの関係において：  
以下の意思決定において、多くの場合本社は海外駐在をされているあなたに対してどの程度の影響を及ぼしているでしょうか。それぞれの意思決定において最も当てはまる番号を1～5の中から選んでください（1、全て海外ビジネスユニットが決める 2  
本社の影響を受け海外ビジネスユニットが決める  
3 同程度の影響力で決める 4  
海外ビジネスユニット駐在員の影響を受け本社が決める  
5 全て本社が決める）
- 9.1 主要顧客へのクレジットの拡張
  - 9.2 海外地場市場への製品・サービスの導入
  - 9.3 海外組織へのトレーニングプログラム
  - 9.4 オペレーションスタッフの採用
  - 9.5 営業・利益目標の設定
  - 9.6 オペレーションプロセスの変更
  - 9.7 品質管理基準
  - 9.8 ビジネスパートナーの選択
- 10 意思決定における駐在員とNSマネジャーとの関係において：  
以下の意思決定において、多くの場合海外駐在をされているあなたは現地NSマネジャーに対してどの程度の影響を及ぼしているでしょうか。それぞれの意思決定において最も当てはまる番号を1～5の中から選んでください（1、全て現地NSマネジャーが決める 2  
駐在員の影響を受け現地NSマネジャーが決める  
3 同程度の影響力で決める 4  
NSマネジャーの影響を受け駐在員が決める 5 全て駐在員が決める）

- 10.1 主要顧客へのクレジットの拡張
- 10.2 海外地場市場への製品・サービスの導入
- 10.3 海外組織へのトレーニングプログラム
- 10.4 オペレーションスタッフの採用
- 10.5 営業・利益目標の設定
- 10.6 オペレーションプロセスの変更
- 10.7 品質管理基準
- 10.8 ビジネスパートナーの選択

11 問題解決：海外ビジネスユニットをマネジメントする上で下記の要素を解決することがどの程度困難かに関してあなたの意見に最も一致するものを1～5の番号から一つ選んでください

(1非常に困難 2困難 3どちらでもない 4容易 5非常に容易)

- 11.1 本社と海外ビジネスユニット間の誤解
- 11.2 本社と海外ビジネスユニット間のコミュニケーションの欠如
- 11.3 本社と海外ビジネスユニット間の共通した価値観の創出
- 11.4 本社からの過度な管理
- 11.5 本社からの支援の少なさ
- 11.6 異文化の差
- 11.7 言語の障壁
- 11.8 本社からの各種支持の伝達・徹底

12 駐在員の行動：

あなたが海外駐在員として、以下に挙げられている活動をどの程度行っているかに関して最も当てはまるものを1~5の中から一つ選んでください

(1全くない 2ほとんどない 3ある程度 4多い 5非常に多い)

- 12.1 既存事業のために、自分自身で海外現地における（子会社内含む）情報収集を行う
- 12.2 既存事業のために、自分自身で現地組織における様々な異なる意見を統合する
- 12.3 既存事業のために、自分自身で何か問題が起きたときに再調整を行う
- 12.4 既存事業のために、現地NSをモニターしコントロールすることで海外現地における（子会社内含む）情報収集を行う
- 12.5 既存事業のために、現地NSをモニターしコントロールすることで現地組織における様々な異なる意見を統合する



14.8 これまで何か国で仕事をしてきましたか（豊田通商以外を含む）  
（ か国）

14.9 海外就業経験の総年数（豊田通商以外を含む）（ 年）

以上

### Appendix 4-3: Questionnaire for Headquarters managers

#### 質問票

豊田通商海外経営に関する調査質問票（日本/本社の方向け）

この質問票は豊田通商様に関する学術調査の一環として行われております。本調査は、子会社経営に関する課題への理解を深め、その課題解決に対しての洞察を得ることを目的に、特に子会社と本社の関係性が子会社のパフォーマンスに及ぼす影響を中心に検証してゆきます。今回の調査結果の一部は社内にもフィードバックされますが、その際には500人を超えるサンプル数を基に統計処理を施された結果が提供されますので、特定の個人や部門が特定される形でのアウトプットではございません。

この質問票では海外子会社の管理、情報交流等に関するご回答者様の考えを様々な角度から質問をさせていただきます。統計解析を行う調査設計上、いくつかの質問は一見重複しているように見えるかもしれませんが、全ての質問にお答えください。この調査票では“子会社ビジネスユニット”という言葉が繰り返し使用されます。“子会社ビジネスユニット”は特定の地域子会社における事業を指します（例：中国におけるグローロジ）。

全てのご回答は厳格な守秘性を持って管理されます。質問票はID番号で扱われるので回答者のお名前が質問票に表示されることはなく、また分析を行うアカデミックのみが回答内容に接触します。回答内容が開示されることもありません。

お忙しい中、本調査の回答にご協力いただき有難うございます。

Jusuke JJ Ikegami

Waseda University

メール：[jjikegami@waseda.jp](mailto:jjikegami@waseda.jp)

電話：03-5286-8257（研究室）

## 海外子会社・本社の意識調査に関する質問票（海外駐在の方向け）

本質問票はご回答者様の“ご認識”に焦点を当てております。どのように考え・感じているかをご回答ください。

指定された国において担当されているビジネスユニットに関して以下の質問にお答えください。

- 1 ご担当されている地域の各ビジネスユニットにおける下記のパフォーマンス項目に関して最もあてはまる番号を次の1から5中から選択してください。（1非常に低い、2低い、3まあまあ 4高い、5非常に高い、NA当てはまらない）
  - 1.1 総合的な利益率は業界標準に比べて
  - 1.2 総合的な利益率は計画値に比べて
  - 1.3 総合的な利益の伸びは計画値に比べて
  - 1.4 既存事業の市場シェアはあなたの期待値に比べて
  - 1.5 既存事業の生産性レベルはあなたの期待値に比べて
  - 1.6 既存事業のコストと品質レベルはあなたの期待値に比べて
  - 1.7 既存事業のオペレーションレベルはあなたの期待値に比べて
  - 1.8 既存顧客へのビジネス浸透度合いはあなたの期待値に比べて
  - 1.9 新事業の成長状況はあなたの期待値に比べて
  - 1.10 新規顧客開拓の状況はあなたの期待値に比べて
  - 1.11 新事業開発の準備レベルはあなたの期待値に比べて
  - 1.12 新サービス・製品開発状況はあなたの期待値に比べて
  - 1.13 他の部門への貢献状況はあなたの期待値に比べて
  - 1.14 新事業の総合的なパフォーマンスはあなたの期待値に比べて
  - 1.15 既存事業の総合的なパフォーマンスはあなたの期待値に比べて
  
- 2 各子会社ビジネスユニットは全社ビジネスの中で以下の点においてどの程度重要でしょうか。重要度を次の1～5の中から選択してください（1全く重要ではない、2重要ではない 3ある程度 4重要 5非常に重要）
  - 2.1 利益額において
  - 2.2 マーケティング活動における情報（収集・発信）面において
  - 2.3 他の事業ユニットとの重要な関係性を維持する点において



- 3 各子会社ビジネスユニットの以下の活動における能力は、どの程度と認識しているでしょうか。能力レベルを次の1～5の中から選択してください  
 (1 非常に低い 2 低い 3 まあまあ 4高い 5非常に高い)
- 3.1 研究開発 (新事業開発力含む)
  - 3.2 製品 (および/もしくは) サービスの製造
  - 3.3 マーケティング (および/もしくは) 営業
  - 3.4 ロジスティクス (および/もしくは) 流通 (オペレーション含む)
  - 3.5 購買
  - 3.6 人材管理
  - 3.7 マネジメント全般
  - 3.8 パートナー開発
- 4 豊田通商の組織文化はどの程度あなたの属するビジネスユニットに浸透していると思いますか?  
 浸透度を次の1～5の中から選択してください (1 全く浸透していない 2 浸透していない 3 ある程度 4 浸透している 5 大変よく浸透している)
- 5 組織文化：  
 以下の3つの豊田通商ウエイは各子会社ユニットにどの程度浸透しているでしょうか。浸透度を次の1～5の中から選択してください。1 全く浸透していない 2 浸透していない 3 ある程度 4 浸透している 5 大変よく浸透している
- 5.1 現地・現物・現実
  - 5.2 チームパワー
  - 5.3 商魂

ナレッジフロー：ナレッジフローには専門知識、スキル、解決策、戦略的に重要な市場データなどが含まれます。以下初めにナレッジフローの日本本社（および他のビジネスユニット）から海外子会社への流入を質問し、次に海外子会社から日本本社（および他のビジネスユニット）への流入を質問します：

- 6 以下のナレッジの要素において、本社から海外子会社ビジネスユニットへ向けてのナレッジ流入に関して最もあてはまるものを1から5の中から選択してください (1ほとんどない 2少ない 3ある程度 4多い5大変多い)

- 6.1 研究開発（新事業開発力含む）
- 6.2 製品（および/もしくは）サービスの製造
- 6.3 マーケティング（および/もしくは）営業
- 6.4 ロジスティクス（および/もしくは）流通（オペレーション含む）
- 6.5 購買
- 6.6 人材管理
- 6.7 マネジメント全般
- 6.8 パートナー開発
- 6.9 全社および事業部としての方針と戦略

7 以下のナレッジの要素において、海外子会社ビジネスユニットから本社へ向けてナレッジ流入に関して最もあてはまるものを1から5の中から選択してください

(1ほとんどない 2少ない 3ある程度 4多い5大変多い)

- 7.1 研究開発（新事業開発力含む）
- 7.2 製品（および/もしくは）サービスの製造
- 7.3 マーケティング（および/もしくは）営業
- 7.4 ロジスティクス（および/もしくは）流通（オペレーション含む）
- 7.5 購買
- 7.6 人材管理
- 7.7 マネジメント全般
- 7.8 パートナー開発
- 7.9 全社および事業部としての方針と戦略

8 本社の管理と子会社との協調：現在の本社と海外子会社ビジネスユニットの関係における以下の各項目において、どの程度同意できるかに関するあなたの見解を最もあつわすものを1から5の番号で選択してください：

(1全く同意できない 2あまり同意できない 3どちらでもない

4ほぼ同意 5全く同意)

- 8.1 海外子会社ビジネスユニットはグローバルな事業管理者（本社主管部）に相談することなくサプライヤーを選択することができる
- 8.2 海外子会社ビジネスユニットはグローバルな事業管理者（本社主管部）に相談することなく組織を変更することができる
- 8.3 時の経過とともに海外子会社ビジネスユニットはグローバルな事業管理者（本社主管部）に対してより自律性を持ってきている

- 8.4 海外子会社の投資において、グローバルな事業管理側（本社主管部）と海外子会社ビジネスユニットの利害は通常一致している
- 8.5 海外子会社の購買行動においてグローバルな事業管理側（本社主管部）と海外子会社ビジネスユニットの利害は通常一致している
- 8.6 海外子会社との関係性において、各海外子会社ビジネスユニットの役割に関してグローバルな事業管理側（本社主管部）と海外子会社ビジネスユニットの意見は通常一致している
- 8.7 概して海外子会社ビジネスユニットの現地マネジャーとスタッフのモチベーションは高い
- 8.8 概して海外子会社ビジネスユニットの現地マネジャーとスタッフのモチベーションは過去と比べて上がってきている
- 9 意思決定における本社と海外子会社ビジネスユニットの関係において：  
 以下の意思決定において、多くの場合本社は子会社ビジネスユニットに対してどの程度の影響を及ぼしているでしょうか。それぞれの意思決定において最も当てはまる番号を1～5の中から選んでください（1、全て海外ビジネスユニットが決める 2  
 本社の影響を受け海外ビジネスユニットが決める  
 3 同程度の影響力で決める 4  
 海外ビジネスユニット駐在員の影響を受け本社が決める  
 5 全て本社が決める）
- 9.1 主要顧客へのクレジットの拡張
- 9.2 海外地場市場への製品・サービスの導入
- 9.3 海外組織へのトレーニングプログラム
- 9.4 オペレーションスタッフの採用
- 9.5 営業・利益目標の設定
- 9.6 オペレーションプロセスの変更
- 9.7 品質管理基準
- 9.8 ビジネスパートナーの選択
- 10 一般的な問題解決：  
 海外ビジネスユニットをマネジメントする上で下記の要素を解決することがどの程度困難かに関してあなたの意見に最も一致するものを1～5の番号から一つ選んでください  
 (1非常に困難 2 困難 3 どちらでもない 4 容易 5非常に容易)

- 10.1 本社と海外ビジネスユニット間の誤解
- 10.2 本社と海外ビジネスユニット間のコミュニケーションの欠如
- 10.3 本社と海外ビジネスユニット間の共通した価値観の創出
- 10.4 本社からの過度な管理
- 10.5 本社からの支援の少なさ
- 10.6 異文化の差
- 10.7 言語の障壁
- 10.8 本社からの各種支持の伝達・徹底

11 この項目ではあなたのバックグラウンドに関して伺わせていただきます。

下記の質問に順次お答えください：

- 11.1 ご所属本部
- 11.2 ご担当されているリージョンもしくは国数（        ）
- 11.3 その地域・国名(     /     / )
- 11.4 本社における部下の数
- 11.5 国籍
- 14.12 役職・肩書: (General manager, Group Leader, other type of manager, other)
- 11.6 豊田通商における勤続年数（本社・海外・出向の総計） \_\_\_\_\_
- 11.7 出生年(生まれた年を記入ください) ----- 19 \_\_\_\_\_
- 11.8 性別----- Male / Female
- 11.9 これまで何か国で仕事をしてきましたか（豊田通商以外を含む）  
（     か国）
- 11.10 海外就業経験の総年数（豊田通商以外を含む）（     年）

以上です    ご協力ありがとうございました。

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