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The strategic decisions and success factors of the global integration-local responsiveness of Japanese MNCs in China

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Abstract This article applies Foreign Direct Investment (FDI) theories to the strategic management analysis of the global integration-local responsiveness of multinational corporations (MNCs) in China, from the perspective of company characteristics (ownership advantages and internalization advantages) and environmental dynamics (locational factors) in order to analyze the success factors influencing the sales activities of Japanese MNCs in China. Based on the analysis of a survey conducted on 230 Japanese parent companies with investments in China, the empirical research findings include: Japanese MNCs in China favor global integration strategies; the more significant the ownership advantages and internalization advantages are, the greater the global integration is; the success factors of their operations in China due to global integration are present in manufacturing know-how, procurement of parts and supplies, financial power, previous investment experience in China as well as sales networks and technologies; locational advantages mainly lie in labor cost among other things; internalization factors do not have any significant correlation with the success and performance of the subsidiary company.

Keywords Japanese MNCs, global integration-local responsiveness, ownership advantages, locational factor, internalization advantages

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1 Introduction

Amidst the waves of economic globalization, the flow of international capital has been increasing rapidly both in velocity and in quantity. However, most of the capital has remained in developed countries, which causes developing countries to embark on fierce competitions to attract foreign investments. Since the 1980s, almost all developing countries have utilized various incentives or promotion measures to attract foreign direct investment (FDI). China, nonetheless, has become one of the few most successful countries in attracting FDI. According to the statistics published in the *World Investment Report 2002*, the amount of FDI in China had increased steadily since 1990. Since the Asian financial crisis in 1998, the amount of FDI entering China has decreased. However, China withstood the trend of the rapid decrease in global foreign investments as the inflow of FDI into China in 2001 increased by approximately 15%, and became the only country in the world with substantial growth in FDI.¹ In 2002, China surpassed the United States of America, becoming the number one FDI destination in the world. Chinese economy sustained steady growth, especially after the entry into the WTO, which made China one of the most important players in the global economy. Thus, gaining successful entry into the Chinese market as well as developing sales and marketing has become an important issue of consideration among many multinational corporations (MNCs).

Japan has been increasing its investment steadily in China since the 1980s. Statistics show that regardless of investment inflow or outflow, Japan has one of the top positions amongst the foreign direct invested multinational companies in China.¹ From the perspective of investment inflow, Japan's direct investment in China is substantially higher than England, Germany, France and various European developed countries. In addition, Japan surpassed the U.S. and was the number one foreign direct investor in China for 9 recorded years. In 2001, Japan had 2,467 MNCs in China, second only to the U.S.² Japanese FDI in China ranks top positions not only in volume and MNC numbers, but also in terms of robust competitiveness, e.g., Toyota, Honda, Panasonic and Mitsubishi.

¹According to *Multinational Enterprise Foreign Economic Statistical Yearbook 1952–1988*, *Multinational Statistical Yearbook 1990–2002* and *Toyo Economics 2002, 1999, 1994, 1998*, since the 1980s, Japan's investment in China has been significantly higher than England, Germany, France and other European developed countries, with 9-recorded years of surpassing the United States and achieving the number one position in the direct investment in China amongst developed countries. In 1998 and 2001, Japanese MNCs with Chinese operations amounted to 2,426 and 2,467 respectively, second only to the United States.

²Statistical Source: *Multinational Enterprise Foreign Economic Statistical Yearbook 1952–1988*, *Multinational Statistical Yearbook 1990–2002* and *Toyo Economics 2002, 1999, 1994, 1998*.

Though the Chinese market possesses enormous potential for Japanese MNCs, it is still insufficiently developed in some aspects, hindered by severe language and cultural barriers. Therefore, in competing with local and other foreign companies, MNCs in China must possess certain advantages in order to guard off external challenges and overcome internal weaknesses. This paper utilizes MNCs global integration-local responsiveness as the research framework, with surveys targeted at Japanese parent companies investing in China to explore and analyze the strategic decisions and success factors of Japan's investments in China.

2 General overview

The purpose of this study is to carry out an assessment of the global strategy employed by Japanese MNCs with reference to their activities in China. In order to pursue this objective, it is necessary to review the general framework of global strategy. Roth (1990), Johnson (1995) and Taggart (1997) acknowledge that Integration-Responsiveness Framework (IR framework) can be employed to analyze the global strategy of MNCs. Global integration indicates the continuous operational foundation of centralized management on decentralized locational activities. Local responsiveness represents the decision of localized resource distribution made by the local subsidiary company based on local competition and consumption demands.

Hedlund (1981) was among the first group of scholars who recognized the key role of integration in achieving worldwide corporate synergies through coordinating inputs such as innovative capabilities, know-how, knowledge, and flows of resources within the network. Hitt and Ireland (1987) pointed out the significance of integration in international marketing, especially in the fields of customer relationship management (CRM), market segmentation, and tangible product design. At the same time, Bartlett (1981) emphasized the importance of local responsiveness in the situation of rapid international growth, and this has been confirmed repeatedly in literature, stressing the need for differentiation and its effectiveness. Leontiades (1986) further recognized that localization could be so fully-developed that the local strategy of the subsidiary company was entirely different from the parent company. Bartlett and Ghoshal (1989) agreed with the same point and further made clear this issue, but with slightly different emphasis. They stressed that under certain preconditions, corporate survival may depend on the proactive development of such differentiating local responsiveness in specific functional areas, for example, international R&D, especially in the pharmaceutical or consumer goods industry, where product specifications and consumer tastes varied widely among countries. Later Egelhoff (1988) described the key role of local responsiveness as the qualitative pressure under the local environment from the perspective of organizational theories.

Prahalad and Doz (1987) jointly published *MNCs Mission: In Search of the Balance between Localize Management and Global Integration* based on their individual doctorate theses. They brought forth and fully analyzed the Integration and Responsiveness Framework (IR Framework, see Fig. 1-a) which was reviewed, validated, edited and perfected by numerous scholars later.

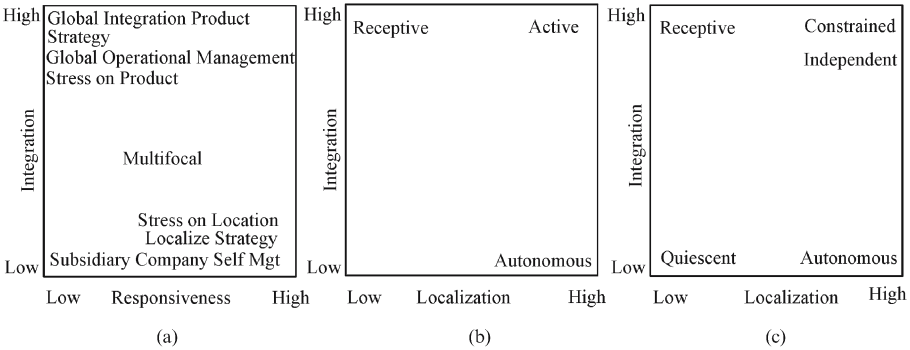


Fig. 1 Integration-responsiveness model and its development

Johnson (1995) randomly selected 1,800 construction equipment manufacturers in the United States and carried out a questionnaire survey on their CEOs, and received 346 valid responses. Results of the study also confirmed the three strategies formulated by the IR paradigm, namely, multifocal (Multinational), integrated (global) and locally-responsive strategies (multidomestic).

Jarillo and Martinez (1990) applied a non-random sampling technique (filtering some leading companies from each industry), and selected 50 overseas affiliates in Spain. These overseas affiliates came from 8 industries and each industry comprised the minimum of 5 companies. Among these companies, 26 companies came from the EU, 19 American enterprises, and 5 from Japan. They interviewed these companies and required the interviewees to review and describe the status of their operations in the host countries in the last three years, the present time and in the future. Although Integration remains as one axis of the model, they replace (Local-) Responsiveness by Localization. Introduction of the concept of localization is to reflect six problems around the concept of responsiveness. They identified three strategic roles for subsidiaries: active subsidiaries (high integration and high responsiveness), autonomous subsidiaries (low integration and high responsiveness), and receptive subsidiaries (high integration but low responsiveness). Results of the empirical study were clustered into three categories providing evidence for the three strategies mentioned above (see Fig. 1-b). Taggart (1997) examined the IR Paradigm comprehensively, and selected UK manufacturing subsidiaries of American corporations as the research

subjects with effective samples of 171 companies. Through cluster analysis, Taggart confirmed the existence of the four strategies of subsidiaries. In addition, he altered “active subsidiaries” to “constrained independent subsidiaries” and introduced the concept of the strategy of “quiescent subsidiaries” (see Fig. 1-c).

The research on global strategic management of Japanese MNCs in China has focused primarily on two areas—to analyze the motives and characteristics of Japanese parent companies’ investments in China at the macro level and to analyze the present conditions of Japanese MNCs in China (industry type, operational style, objectives of the investment in China), Japanese manufacturing approach/the possibility of the transference of skills to China, Japanese MNCs’ management conditions and the issues such as the integration with Chinese culture (Zhu and Liang, 2000).

In addition, based on the analysis of a survey conducted on the parent companies of Japanese MNCs in China, Yoshihara (1997) stated that the main success factors of Japanese MNCs in China include, the selection of a good partner and whether or not the partner possesses the ability to understand the local operating environment thoroughly and an excellent communication skill with the local government as well as products, technologies, and brand superiority.

The above research overview shows that most research on the analysis and explanation of Japanese overseas investment behavior and characteristics utilizes the multinational direct investment framework. But there is a lack of systematic analysis on Japanese corporate investment activities in China from the perspective of corporate strategies, and research on the success factors of Japanese MNCs management strategies especially in regard to the correlation between the success factors of the management strategy and performance.

3 Propositions and research questions

According to the above discussion on seeking for the balance between MNCs’ global integration-local responsiveness analysis, the resultant proposition (P) can be formulated as follows.

P1: The global strategy of Japanese MNCs with respect to their Chinese operations can be formulated within the integration-responsiveness framework.

The associated research question (RQ) then can be summarized as follows.

RQ1: Within the integration-responsiveness framework, where is the position of the global strategy of Japanese MNCs in their Chinese operation and how is it defined?

As suggested previously, there seems to be a relationship between global strategy and success. As Taggart (1997) showed, Leontiades (1986) identified the coordination of global resources as essential to MNC success. So did Porter (1986)

who defined coordination in terms of the linkages between similar activities in different countries and/or different parts of the MNC's international network. The resultant proposition and research question are:

P2: There is a correlation between the global strategy of Japanese MNCs and their Chinese operations and their performance.

RQ2: How did the successful global strategy of Japanese MNCs with respect to their Chinese operation balance between integration and responsiveness? What is the relationship between them and the performance of their subsidiaries?

As suggested above, whether MNCs opt for integration or responsiveness depends on several factors. For instance, Hedlund (1981) related integration to the degree of subsidiary autonomy and Bartlett and Ghoshal (1989) found a positive relationship between corporate innovative capabilities and integration. An overview of the literature shows that several influencing variables have been identified independent of each other (Taggart, 1997). Based on the view that global strategy is basically instrumental for achieving the strategic goals pursued by established foreign operations, Kumar (1993) suggested relating it (global strategy) to the determinants of FDI. In other words, the extent to which global integration or/and local responsiveness are practical will depend on the variables underlying the corporate decision to invest and set up operations abroad.

The corporate foreign investment decision has been conceptualized in the framework of the theory of direct investment in several ways (Aharoni, 1969; Buckley and Casson, 1976). For our study, the Eclectic paradigm (Dunning, 1989) offers a purposeful approach especially because the three categories of determinants—ownership advantages, location-specific factors and internalization advantages—also fit into the general strategy framework (Hofer and Schendel, 1978; Quinn, 1980; Fredrickson, 1983), which defines corporate characteristics and environmental factors as the main influencing blocks of (global) strategy formulation (Kumar, 1993).

Oligopolistic advantage theory presumes that, in order to compete with large local companies that know well the environment, market and commercial conditions, foreign entrants must have certain transferable advantages, which often enable them to be credited with monopolization and opportunities to enter the host country (Hymer, 1976). Dunning further expanded oligopolistic advantage into ownership advantage. He suggested that MNCs' ownership advantages refer to the possession of both valuable assets and efficient capabilities of transnational administrative management. Obviously, MNCs would better prepare themselves for establishing competitive positions in the course of the expansion of their overseas business with more distinctive ownership advantages.

The influence of ownership advantages on global strategy can be assumed to the extent that their effective use worldwide can be facilitated by integrating important aspects of operations across borders. On the other hand, the

implementation of intended integration can be made easier when local entities in the worldwide network are convinced that the competitive edge can be achieved by adhering to underlying ownership advantages. This relationship can be summarized in the following proposition.

P3: The ownership advantage of Japanese MNCs in China has a positive correlation to the global integration strategy (and vice versa).

Classic locational factors indicate that production cost is a major factor in deciding the manufacturer's location. MNCs often choose to carry out their business in the lowest possible production cost areas (Buckley, 1988). Dunning (1988) summarized four locational factors as follows: market factors, trade barriers, cost factors and investment climates. Many scholars think that locational factors can be grouped into two categories. One is resource endowments such as natural and labor force resources, and easy access to markets. The other includes political, economic and legal situations, and infrastructure (Tatoglu and Glaister, 1998).

MNCs invest abroad in order to avail themselves of location-specific advantages, which can be seen in the local market and low production costs. On the other hand, certain locational factors like bureaucracy of the local government can be an impediment to effective operations. It can be assumed that relatively difficult host-country environments will lead foreign companies to develop specific adaptive solutions to corresponding problems, whereas congenial conditions can be favorable to the application of standardized resources and know-how. By the same token, the divergence of the host-country environment from the home country will require a shift in the balance of global strategy from unification towards more fragmentation (Fayerweather, 1969) if the management is to be functional in the alien location. Obviously, what kind of the balance of global strategy between integration and responsiveness will finally be adopted depends on how MNCs can actually address environmental divergence and the relevant problems. These arguments lead to the following proposition.

P4: The level of environmental difficulties perceived by the Japanese MNCs in China has a positive correlation to the level of localization of their global strategy.

Internalization advantage theory indicates that MNCs do not require unique ownership advantages to perform FDI. Instead, it calls for the creation of an administrative structure or internal market that is more effective than the external market. Dunning (1989) showed that MNCs' internalization advantages refer to those gained through companies' ownership advantages within the organization. Since transferring certain products or technology through the market can result in the increase in trading costs, companies may seek to keep the costs at a low level by internalizing incomplete markets. Although internalization actually means capitalizing on advantages to add value by transforming resources within the company rather than the company's possession of advantages itself, the result is

that it helps to strengthen and elevate company's competitive advantages. These arguments lead to the following hypothesis.

Finally, it can be argued that achieving internalization advantage in foreign operations, as conceptualized by the transaction cost theory with the help of hierarchies (Buckley and Casson, 1976), requires keeping down the incurred coordinating costs within internal markets. This presumes that standardized functions can be integrated more easily than diverse activities.

P5: The internationalization achieved by Japanese MNCs in China has a positive correlation to the integration strategy.

On the basis of propositions P3 to P5, the research question can be defined as follows.

RQ3: What are the determinants of the global strategy of Japanese MNCs in China? Which factors consistent with the Eclectic Paradigm influence the integration and responsiveness in the Chinese operations of Japanese MNCs?

Fig. 2 summarizes the research framework.

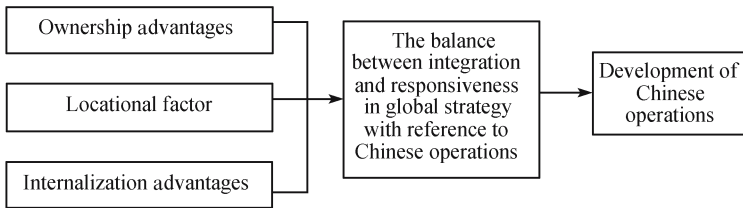


Fig. 2 Research framework

4 Methodology³

4.1 Sample

This research sample includes the Japanese MNCs that have their own manufacturing and sales subsidiaries, as well as non-financial parent companies

³The survey used in this study is based on a revised edition of a previous research survey co-conducted by the author and Professor Kumar of University of Nurnburg in Germany during the author's visit in the summer of 1998. The collaboration targeted surveys at German parent companies with Chinese operations, the research is to find out their global strategies and success factors in China. For more information, please refer to the thesis: B. N. Kumar, Yunshi Mao and Birgit Ensslinger, *Global Strategic Management of German MNCs in China: Patterns and Determinants of Sustainable Competitive Advantage in the Aftermathe of the Asian Crisis*, pp. 64–80, 2002

of joint ventures. The target sample does not include those parent companies with only representative offices in China. The parent company database was generated from the *Overseas Import Export Enterprises* (published by Japan Toyo Economic News Editorial, 2002).

During the author's visit to Japan Kobe University from August to October 2002, survey questionnaires were sent to the general managers of 702 Japanese companies with legitimate entities (corporations, enterprises) in China. Of the 702 companies, 2 had invalid addresses, 2 declared bankruptcy, and 2 felt the infringement on confidentiality, thus a total of 698 surveys were issued. There were 230 responses returned, resulting in a satisfactory response rate of 32.95%.

The samples of Japanese MNCs have characteristics as follows.

According to 2001 statistics, the above-mentioned 702 manufacturing parent companies have established 2,647 legal entities (corporations, enterprises) in China with an average of 3.77 subsidiary companies per parent company.

The sample Japanese companies with operations in China have business in at least two regions overseas, and some large-scale companies have business globally. The primary distributions include Southeast Asia, North America, and Europe, which resulted in 86.5%, 73.9% and 58.9%, respectively.

The responding Japanese parent companies with Chinese subsidiaries are mainly distributed in the electrical, chemical, machinery, transport machinery, precision machinery and textile industries. The parent companies with 1,000 employees or less resulted in 47.8% of the total sample. There were 15 parent companies or 9.1% of the total sample that had 10,000 or more employees. For the Chinese subsidiaries, the parent companies with 200 employees or less constituted 30.7% of the total sample and those with 2,000 employees or more accounted for 18.0% (please refer to Table 1).

The global sales of the responding Japanese parent companies ranged from a maximum of 13,424 billion Yen to a minimum of 80 million Yen in 2001, which

Table 1 Sample industry distribution and number of employees

Industry	Percent	Employees in parent company		Employees in Chinese subsidiary	
		Number	Percent	Number	Percent
Electrical machinery	17.3%	under 1000	47.8%	under 200	30.7%
Other manufacturing industries	11.9%	1001–5000	36.1%	201–500	25.9%
Chemical	11.1%	5001–10000	7.0%	501–1000	15.4%
Machinery	11.1%	10001–15000	2.6%	1001–2000	10.1%
Transport machinery	9.5%	15001–20000	1.3%	over 2001	18.0%
Precision machinery	9.5%	Over 20001	5.2%		
Textile	9.1%				

averaged 370 billion Yen. The annual sales of the Chinese subsidiaries ranged from a maximum of 300 billion Yen to a minimum of 25 million Yen, averaged about 10 billion Yen. The largest contribution of Chinese subsidiaries to the total sales of their parent companies is 80%, while the smallest is 0.02%, with an average of less than 12%.

From the above comparison between parent companies and Chinese subsidiaries in terms of employment number and sales, it is clear that the size of Chinese operations is generally small or medium.

Japanese investment in China began in the period of the early economic reform. It has been growing steadily since the 1980s with a rapid increase after the speech made by Deng Xiaoping during his 1992 southern tour. From the timeline of Japanese initial investment in China presented in Fig. 3, it is clear that Japanese investment in China peaked in 1993, 1994 and 1995. Japanese investment format in China is primarily joint venture enterprises and solely owned subsidiaries, accounting for 68.3% and 65.2%, respectively. The main business segmentation developed in China includes parts manufacturing, installation and trading, accounting for 58.7%, 63% and 57%, respectively. From the perspective of location, the majority of Japanese investments in China are concentrated in the Yangtze River Delta area, Pearl River Delta area, Bohai area (Dalian and Tianjin and the surrounding areas), accounting for 68.3%, 35.3% and 32.6%, respectively.

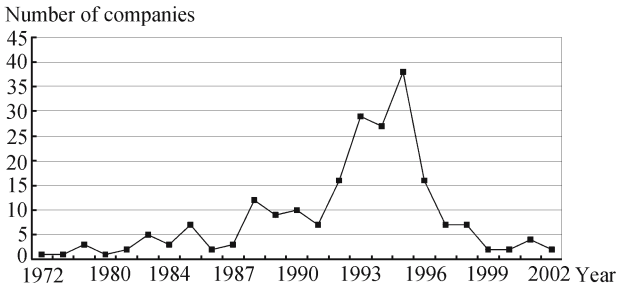


Fig. 3 Timeline of Japanese MNCs initial investment in China

4.2 Measures

4.2.1 Global integration-local responsiveness

The integration and responsiveness dimensions were validated by the following two variables.

(1) Degree of the adaptation of the management in Chinese operations to the global standards of Japanese parent companies—this measure has been used in

previous studies (Porter, 1986; Kumar 1993) and proved to be a robust indicator for integration-responsiveness. Standardization of management functions on a global scale notably facilitates coordination and integration (Martinez and Jarillo, 1991; Rosenzweig and Singh, 1991) and vice versa, a lack of consistency favors differentiation and local responsiveness.

(2) Degree of the decision-making autonomy in Chinese subsidiaries—Hedlund (1981) was among the first to relate integration to the degree of decision-making discretion of foreign subsidiaries. The general assumption is thereby that autonomy usually encourages the differentiation and adaptation of management to local conditions and vice versa. Several studies have proved that MNCs tend to centralize decision-making in management, like in the R&D function, when the thrust in strategy is towards integration, and vice versa.

4.2.2 Competitive capabilities and competitive advantages

According to Dunning's Eclectic paradigm, competitive capabilities and competitive advantages can be explained from three perspectives as follows.

(1) Ownership advantages—according to the theory of oligopolistic advantage (Hymer, 1976; Kindleberger, 1969), foreign operations must possess a competitive edge over local companies to ward off their local privileges, such as better information, and standing relations with indigenous partners. These competitive advantages can be manifested in several ways. Indicators used in this study include perceived competitive advantages between the Chinese operations of Japanese MNCs and competitors in China (local and foreign) in the field of product programs, technologies, financial standing, cultural competence and personnel training.

(2) Locational factors—as discussed earlier, the environment in the host country can pose threats or opportunities for foreign companies. The extent to which the locational factors are perceived by MNCs as such will influence their global strategy. The environment is a complex configuration, and the most important is relevant locational factors. These can be operationalized according to the concept of investment climate as proposed in the literature for evaluating the risks and opportunities in the host country (Dülfer, 1997). In this study, 20 locational factors were enlisted for the evaluation by the Japanese MNCs with reference to the environment in China: bureaucratic efficiency, investment laws for foreign companies, bureaucratic and public attitudes towards foreign companies, services (consultation, bank), integrity in authorities, overheads (e.g., rent, transportation cost), labor costs, licensing procedures, attitudes of local employees towards employment and unemployment, currency stability and exchange rates, degree of contract loyalty, availability of short-term capital, tax rates on foreign companies, completion and execution of laws and regulations,

environmental laws, incentives from local governments, infrastructure, political stability and economic policies.

(3) Internalization factors—as mentioned earlier, achieving competitive advantages also depends on the extent to which internal markets can be built and coordinated. A robust indicator is the intra-corporate or inter-subsidiary exchange of goods, resources and information (Kobrin, 1991). Effectively, the proportion of sales and procurement of the Chinese operations in conjunction with the Japanese parent company can be delineated as a proxy for internalization.

4.2.3 Success and performance

Measuring the success of an organization can be complex and varied. The most widely utilized method is a series of financial indicators, which includes profit, growth rate and market share (Miller, 1994). Nevertheless, the measurement of MNC performance is affected by various other factors. The inherent issues faced by the MNCs in China may invalidate the above approach. Changes in profitability, growth or market share of the Chinese operation maybe constrained by the strategy of the parent company; thus simple profit measures take no account of the differences in the parent company management and the transfer of payments and royalties. Intra-corporative transfers are used to maximize the profits of the whole group, not the profits of the Chinese operations. In addition, changes in performance of the Chinese operations may be determined by the marketing policy within the parent company's global strategy, rather than the success of the individual Chinese operations. Furthermore, it is difficult to differentiate amongst various industries given the above-mentioned measurements such as ROI (Return On Investment) or market share. Especially with the different Japanese investments in various industries such as home appliances, pharmaceutical, automobile, the resultant competitive pressure also varies greatly. Thus it is challenging to make any comparison between various companies.

In 1998, the author utilized a measurement targeted at foreign investment during his research on German MNCs operating in China. The two indicators thereby employed are the perceived goal attainment on the Chinese operation by the Japanese parent company and the decision by the Japanese parent company to repeat its investment in China.

The two indicators are based on the judgment of the parent company, so they are subjective. However, this measurement has the advantage of evaluating the success of Chinese operations together with the original motivation and expectation of Japanese MNCs to begin operations in China. Such subjective indicators have proved to be appropriate for reflecting performance of foreign subsidiaries in the studies conducted by Geringer (1989) and Millington (1977).

4.3 Performance

The mean value pertaining to the perceived goal attainment of Chinese operations by Japanese parent companies is 2.48 (1 = all goals achieved, 5 = none achieved), which shows that the overall Japanese parent companies are fairly satisfied with the performance of their Chinese subsidiaries. Additionally, according to the results of the survey, 58.6% of MNCs will reinvest in China, 34.5% have not decided and only 6.8% will not invest again. This result indicates that the majority of the companies see the entry into the Chinese market as crucial in the long term.

Further analysis on the three categories of companies, namely “will invest,” “will not invest” and “have not decided,” demonstrates that those companies that decide to reinvest exhibit higher perceived goal attainment with a mean value of 2.42; those that decide not to reinvest has a goal attainment mean value of 2.67 while the value of those that have not decided is 2.54. The result is plausible as the decision of Japanese corporations to reinvest is influenced by the goal attainment level of their existing Chinese subsidiaries.

Among the respondents, 31 parent companies have experienced investment withdrawals, the highest count being 3. The reasons for withdrawals include 14 counts of “goals unattained” and 9 counts of “conflicts with partners.” The respective Chinese subsidiaries of Japanese MNCs with withdrawal experiences have higher perceived goal attainment, reaching a mean value of 2.41, which is slightly higher than the sample average. Amongst the 31 companies, 51.6% would choose to reinvest in China, 9.7% would not and 38.7% have not decided yet.

4.4 Global strategy: The integration-responsiveness practice

According to the measures developed, the global strategy of Japanese MNCs in China is ascertained by two indicators.

1. The first global strategy assessment is the degree of the adaptation of Chinese subsidiaries to local conditions or to the parent company practice. The respondents were asked to evaluate themselves on a 5-point Likert scale (1 = completely adapted to the parent company practice; 5 = completely adapted to the local practice). Not a single Japanese MNC has completely been adapted to local practices, while 52.5% basically employed parent company practices with a mean score of 2.47. On the whole, Japanese MNCs in China tend to adopt parent company practices, namely, a strategy with high level of integration.

2. The second assessment for global strategy is the degree of decision-making autonomy in Chinese operations. The respondents were asked to indicate the amount of influence the Japanese parent companies exercised on strategy decisions in the Chinese operations (e.g., product selection, key personnel

appointment, sales programs) based on 1 = complete influence and 5 = no influence at all. The result shows that 8.9% of the MNCs exercised complete influence, 45.1% exercised high level of influence, while only 2 companies had no influence at all; the mean score is 2.46. This indicates that the primary control still lies in the Japanese parent company, which suggests high level of integration in the global strategy amongst Japanese MNCs.

The higher the level of control and influence on the decision-making process of the Chinese subsidiary strategy by the parent company is, the greater the global strategy integration is. This is confirmed by the correlation between the two indicators at a high level of significance ($p = 0.000$). In accordance with P1 and RQ1, we can state that the global strategy of Japanese MNCs with respect to their Chinese subsidiaries can be established on the integration-responsiveness scale, and thereby the integration dimension is the dominant strategic factor.

4.5 Global strategy and performance

First of all, statistical analysis shows a negative correlation between perceived goal attainment and adaptation to Japanese parent company management practice as well as between perceived goal attainment and parent company control. The performance worsens with the increase of Japanese-oriented management and parent company control and vice versa.

Secondly, our results show that the group of companies willing to reinvest in China indicate the highest parent company control with a mean score of 2.44; those unwilling to reinvest in China has a mean score of 2.64; and the undecided companies average 2.45. In addition, the group of companies willing to reinvest in China demonstrate a low level of adaptation to Chinese conditions; those unwilling to reinvest has a mean score of 2.64 for their adaptation; and the score of the adaptation ability of the undecided group of companies is 2.46.

4.6 Determinants for competitive capabilities and competitive advantages

4.6.1 Ownership advantages

As presented in Table 2, among the 9 indicators used to assess competitiveness, the top three perceived strengths in turn are manufacturing technology, quality management and delivery capacity, and investment experience in China. Compared with global competitors, Japanese MNCs have a competitive edge on technology with the mean score of 2.20. Nevertheless, Japanese MNCs have a much higher technological advantage compared with domestic Chinese competitors with the mean score of 1.47. On the whole, compared with both domestic Chinese and global competitors, Japanese MNCs hold a highly competitive advantageous position.

Table 2 Perceived ownership advantage of Japanese MNCs in China

Dimensions of competitive advantage	M*	Integration-responsiveness		Performance	
		Degree of adaptation of management mode	Degree of decision-making autonomy	Perceived goal attainment	Decision of repeat investment
Perceived strengths in general					
Product program	2.48				
R&D capabilities	2.61				
Manufacturing technology	2.15			0.20**	0.03 ⁺
Component purchasing power	2.72			0.20**	
Financial power	2.67			0.21**	
Investment experience in China	2.39			0.30**	
Cultural training	2.81				
Quality management and delivery capabilities	2.22				
Sales network and after-sale services	2.70			0.15*	
Perceived advantages vs. main competitor					
Technology vs. global competitor	2.20				
Technology vs. Chinese competitor	1.47		0.16*	0.15*	
General competitive position vs. other global players	2.29			0.26**	
General competitive position vs. Chinese companies	2.09			0.24**	

M*: Mean value of the 5 point Likert Scale (1 = great advantage, 5 = low advantage)

* $p \leq 0.05$, ** $p \leq 0.01$ (Spearman Corr.); ⁺ $p \leq 0.05$ (p of One-way Anova)

Statistical analysis shows that under a normal competitive environment, product programs, manufacturing technology, parts procurement, financial resources, investment experience in China, sales network and after-sales service have a strong correlation with goal attainment. Furthermore, manufacturing technology is also correlated with the decision of reinvestment. Conversely, there is also a positive correlation between domestic Chinese competitors' technological advantages and the control degree of parent companies. In other words, the greater Japanese MNCs' technological advantages are, the higher the level of control over the Chinese subsidiaries is, thus making the level of integration higher. At the same time, compared with domestic Chinese competitors' and global competitors' technological advantages, Chinese competitors' overall competitive edge has a strong correlation with goal attainment.

4.6.2 Locational factors

Japanese MNCs with operations in China are clustered primarily in coastal areas and economically developed districts. As listed in Table 3, according to the number of Chinese subsidiaries with Japanese investments, they are distributed in 31 provinces, cities and autonomous districts. According to Table 3, Japanese MNCs focus their Chinese operations along coastal areas and economically developed districts, which are, from greatest to least, Shanghai, Guangdong, Jiangsu, Liaoning, Tianjin, Beijing, Shandong, Zhejiang, Hebei, and Fujian. The respective staffing level and number of Chinese subsidiaries are also recorded 1.5% to 2% and above. On the other hand, Japanese MNCs have very few investments in the less economically developed coastal areas such as Guangxi and Hainan. On the whole, Japanese MNCs' direct investments are centered on the economically developed Yangtze River Delta area, Pearl River Delta area, and other coastal areas. As for the less developed central and western districts, the investments are smaller and the percentage of total investment is also lower given some areas with no investments at all.

In this research, the locational factors consisted of 20 issues. According to each locational factor's recorded mean score, we found that Japanese MNCs do not regard China with a high locational advantage. The majority of the MNCs regard the Chinese operating environment as average, and the mean score of the 20 listed locational factors is 2.93. They feel that the greatest challenge with their Chinese operations is the completion and execution of laws and regulations, and then the licensing procedures. The most favorable opportunities for operating in China in ranking order are the low cost of labor, the quality of local employees, the local government, the incentive scheme of local governments and the general overhead cost.

Table 3 Locations of Japanese MNCs in China

First tier administrative districts	Japanese MNCs in China		Employees in Chinese subsidiaries		Note
	Number	Percentage	Number	Percentage	
Shanghai	663	26.3%	106,477	18.4%	Yangtze River Delta
Jiangsu	352	13.9%	76,758	13.4%	Yangtze River Delta
Guangdong	327	13.0%	100,887	17.6%	Pearl River Delta
Beijing	252	10.0%	42,276	7.4%	Coastal area
Liaoning	246	9.7%	67,925	11.8%	Coastal area
Shandong	155	6.1%	38,217	6.7%	Coastal area
Tianjin	149	5.9%	59,081	10.3%	
Zhejiang	90	1.5%	20,232	3.5%	Yangtze River Delta
Fujian	51	2.0%	8,945	1.6%	Coastal area
Hebei	39	1.5%	11,253	2.0%	Coastal area
Chongqing	27	1.1%	5,927	1.0%	
Shanxi	26	1.0%	2,106	0.4%	
Sichuan	21	0.8%	5,239	0.9%	
Henan	17	0.7%	591	0.1%	
Jilin	16	0.6%	1,852	0.3%	
Heilongjiang	15	0.6%	3,294	0.6%	
Hubei	14	0.6%	5,508	1.0%	
Hunan	13	0.5%	5,481	1.0%	
Anhui	13	0.5%	3,116	0.5%	
Hainan	10	0.4%	1,242	0.2%	Coastal area
Inner Mongolia, Xinjiang, Guangxi, Jiangxi, Shaanxi, Yunnan, Ningxia, Guizhou	1-9	1.1%	11,834	0.021%	
Tibet, Gansu, Qinghai	0	0.0%			
Total	2,525	100.0%	577,241	100.0%	

Source: Toyo Economics, Overseas Import and Export Company Listing 200, 長岡貞男, 日系企業の中国投資動向の動機.

Due to the high relativity amongst the various factors, we adopted the factor analysis to simplify the locational determinants for the Japanese MNCs with direct investment in China. We achieved 7-factor models based on the primary factors and Varimax rotation, referencing eigenvalues. After deleting the smaller relativity items such as “currency stability and exchange rates” as well as “integrity of government officers,” we managed to use 6 factors (see Table 4) out

Table 4 Locational factors affecting Japanese MNCs with direct investment in China

Locational factors	Determinants structure					
	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6
Political stability	0.659					
Economic policy	0.649					
Fundamental infrastructure	0.625					
Attitude of local employees towards employment and unemployment	0.616					
Local employees' quality	0.593					
Laws and regulations governing foreign investors		0.793				
Efficiency in government offices		0.736				
Attitudes of local authorities and the public towards foreign investors		0.659				
Environmental laws			0.799			
Degree of contract compliance in China			0.700			
Completion and execution of laws and regulations			0.695			
Local governments' incentive schemes				0.762		
Tax rates on foreign companies				0.695		
Licensing procedures				-0.586		
Availability of short term capital					0.751	
Availability of services (consultation, banks)					0.749	
Cost of labor						0.879
Overheads (rent, transportation costs)						0.711

Note: This table presents only determinants greater than 0.400

of the remaining 18 primary items to conduct the factor analysis. The compilation of the 6 factors explained 61.71% of the total difference, in which factor 1 constituted for 13.18% of the difference, factor 2 made up for 12.09%, factor 3 explained 10.53%, factor 4 was 9.51%, factor 5 was 8.49% and factor 6 accounted for 7.91%.

Factor 1 includes political stability, economic policy, fundamental infrastructure, attitudes of local employees towards employment and unemployment and the quality of local employees, which are regarded as macro-environment determinants. Factor 2 includes laws and regulations governing foreign investors, efficiency in government offices, attitudes of local authorities and the public towards foreign investors, which are classified as government efficiency determinants. Factor 3 includes environmental laws, the degree of contract

loyalty in China, completion and execution of laws and regulations, which we categorize as laws and regulations determinants. Factor 4 is made up of local governments' incentive schemes, tax rates on foreign companies and licensing procedures, which are called motivational determinants. Factor 5 contains the availability of short-term capital, and the availability of services such as consultation and banks, which are considered as service determinants. Factor 6 is comprised of the cost of labor and overhead (rent and cost of transportation), which are considered cost determinants.

Further analysis shows that out of the 20 locational factors listed in the survey, seven locational factors have a close correlation with the goal attainment of Japanese MNCs with respect to their Chinese operations. These are the degree of contract compliance, laws and regulations governing foreign investors, attitudes of local employees towards employment and unemployment, local governments' incentive schemes, fundamental infrastructure, the quality of local employees, and integrity of authorities. Integrity of authorities has a direct correlation with decisions of reinvestment. The 20 locational factors have a direct correlation with goal attainment, which indicates that the company with the highest locational advantages also has the highest performance. (Please refer to Table 5).

4.6.3 Internalization advantages

Internalization advantages are accessed through the intra-corporate exchange of goods, resources and information between Chinese subsidiaries and parent companies. Two indicators are taken as proxy, intra-corporate sales market share as well as intra-corporate procurement. The results of the survey show that 48.9% of the Japanese MNCs with intra-corporate sales account for less than 30% of the total turnover, 34.7% of the MNCs account for more than 50% and 16.5% account for 30% to 50% of the total sales.

Responding Japanese MNCs with intra-corporate procurement, 27.9% achieved less than 30% of the total procurement, and 47.7% of the MNCs accounted for greater than 50%. These two internalization factors have a close correlation ($p = 0.000$), which means that the greater the intra-corporate sales are, the higher the intra-corporate procurement is.

Statistical analysis shows a direct correlation of the intra-corporate sales and procurement with the management style and the level of control. The higher the intra-corporate sales and procurement are, the higher the degree of control and influence from the parent company is, thus making the level of integration higher. The domestic sales achievement, however, has a negative correlation with goal attainment. In other words, the higher the Chinese domestic market sales figures are, the lower the goal attainment is. Nevertheless, exporting to a third country has a direct correlation with goal attainment—the higher the exportation to a third country is, the greater the perceived goal attainment of the Chinese subsidiary is.

Table 5 Assessment on locational factors of Japanese MNCs with Chinese operation

Locational factors in China	<i>M</i> *	Performance	
		Perceived goal attainment	Reinvestment decision
Completion and execution of laws and regulations	4.02		
Licensing procedures	3.70		
Environmental laws	3.63		
Integrity of authorities	3.52	0.15*	0.02 ⁺
Efficiency in government offices	3.46		
Laws and regulations governing foreign investors	3.42	0.22**	
Degree of contract compliance in China	3.38	0.30**	
Availability of services (consultation, banks)	3.31		
Availability of short-term capital	3.12		
Fundamental infrastructure	3.08	0.19*	
Attitudes of local employees towards employment and unemployment	2.96	0.20**	
Tax rates on foreign companies	2.83		
Currency stability and foreign exchange rates	2.78		
Attitudes of local authorities and the public towards foreign investors	2.72		
Economic policy	2.69		
Political stability	2.54		
Overheads (rent, transportation costs)	2.25		
Incentives from local government	2.23	0.20**	
Quality of local employees	2.21	0.16*	
Labor costs	1.76		
Mean	2.93	0.32**	

Notes: *M**: on a 5 point Likert Scale (1 = Highly advantageous, 5 = Highly disadvantageous)
 * $p \leq 0.05$; ** $p \leq 0.01$ (Spearman Corr.); ⁺ $p \leq 0.05$ (p of One-way Anova)

5 Discussion and conclusions

The analytical results can clearly validate proposition 1 and 2 (P1 and P2). The global strategy of Japanese MNCs with respect to their Chinese operations can be formulated within the integration-responsiveness framework, and there is a correlation between the global strategy of Japanese MNCs, their Chinese operations and performance.

There is a direct relationship between the Japanese MNCs adopting their parent company's practice and the Chinese competitors' technological advantages, which means that the greater ownership advantages are, the higher the global integration is achieved. This is congruent with proposition 3 (P3). Intra-corporate sales and procurement also have a positive correlation with the employment of Japanese

Table 6 Internalization advantages of Japanese MNCs with Chinese operations

Internalization advantages	Internalization advantages			Integration-responsiveness		Performance	
	Over 50%	30%–50%	Under 30%	Degree of adaptation of management mode	Degree of decision-making autonomy	Perceived goal attainment	Reinvestment decision
Sales distribution							
Japanese market	34.7%	16.5%	48.9%	0.25**	0.32**	-0.15*	
Chinese market	47.2%	23.9%	28.4%			0.19*	
Other market	11.7%	14.9%	73.4%				
Procurement distribution							
Japanese market	33.7%	24.1%	42.2%	0.22**	0.22**		
Chinese market	40.4%	28.5%	31.1%				
Other market	9.1%	11.9%	79.0%				

Notes: * $p \leq 0.05$, ** $p \leq 0.01$ (Spearman Corr.)

management practices and the control or influence over Chinese subsidiaries from Japanese parent companies. Better internalization advantages will result in greater global integration. This corresponds with proposition 5 (P5). On the other hand, variance in locational factors does not exhibit a significant correlation with different levels of integration, therefore, proposition 4 (P4) is not validated in this study.

In general, Japanese MNCs with respect to their Chinese operations are considered successful. The success factors are validated by company characteristics (ownership advantages and internalization advantages) as well as environmental factors (locational advantages). In terms of ownership advantages, Japanese MNCs with Chinese operations achieved success based on their manufacturing technology, parts procurement, financial resources, investment experience in China, sales network and after-sales services compared to their Chinese competitors' manufacturing technologies as well as global/China competitors' positions in the competition. Locational advantages impacting Japanese MNCs with respect to their Chinese operations can be classified into 6 determinants based on the determinants analysis—macro-economic determinants, government efficiency determinants, laws and regulations determinants, motivational determinants, service determinants and cost determinants. Further analysis shows that these 20 locational factors contain a positive correlation with perceived goal attainment, which means the better the assessed locational determinants are, the better the performance is. The low cost of labor is the number one success factors amongst the locational factors. With regard to internalization advantages, the sales turnover in Chinese markets has a negative correlation with perceived goal attainment; however, exportation to a third country has a positive correlation with perceived goal attainment.

Currently, the majority of Japanese MNCs with operations in China tend to adopt the strategy of integration, employ Japanese management practices and exercise great influence on strategy decisions of their Chinese subsidiaries in order that parent companies can maintain their control power. Nevertheless, the integration level of the existing Japanese MNCs is negatively correlated to the performance of their Chinese subsidiary. By the same token, the negative correlation between the level of internalization and that of performance indicates the adaptation of localized strategies. Thus searching for the balance between global integration and local responsiveness is a realistic challenge faced by Japanese multinational corporations.

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