

# UNDERSTANDING AND PREDICTING THE FOREIGN DIRECT INVESTMENT BEHAVIOR OF ANCILLARY FIRMS

: The case of Japanese ancillary firms affiliated to Mazda Motor Corp.

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## Abstract

Many studies have pointed the strength of inter-firm linkages on the Foreign Direct Investment (FDI) behavior of Japanese ancillary firms. The analysis in this conceptual paper seeks to provide a possible extension of conventional explanation of foreign location behavior of Japanese ancillary firms by emphasizing the importance of detailed empirical understanding of which aspects of buyer-supplier relationship are more likely to influence the FDI decision of the ancillary firms in response to home-country buyer's foreign expansion. This analysis supports the premise that Japanese automotive suppliers have some discretion in complying with the norms that apply to domestic environment but also face constraints due to dependence on links with only home-country buyers. Documentary evidence and eight interviews with executives of auto-parts suppliers are used to develop analytical framework and a number of propositions that represent the vector of forces that suggest a firm being more alert to changes in industrial landscape are

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**Key Words:** *Buyer-supplier relationship, Resource Dependency Theory, FDI, Japanese Automotive Industry*

## 1 INTRODUCTION

Various theories have been advanced to explain either the motives or determinants of international trajectories by firms. Dominant among others, in explaining the FDI behavior of Japanese firms, are internalization theory of the firm, which draws upon transaction cost theory (Buckely&Casson, 1986 ; Dunning, 1981; Williamson, 1975), oligopolistic reaction and exchange of threats based on the industrial organization theory (Knickerbrocker, 1973), and gravity theory, which draws upon agglomeration and new economic geography theories (Helpman, 1984 ; Krugman, 1991). More recently social network or inter-firm relationship theory is also bringing sociological perspectives, into the field of international business, to examine the legitimating effects of the foreign market entry decisions (Guillen, 2002 ; Heveman, 1993 ; Johanson & Mattsson, 1986 ; Johanson & Vahlne, 2009).

Although different strands of literatures exist, representing multiple factors that motivate decisions to set up foreign activities, popular explanations disseminated about Japanese firms participating in global markets are the ones based on the inter-firm relationships and cooperative behavior between Japanese firms, observable through their affiliation in keiretsu groups. Interested with business and social relationship that prevail in Japan between the customers and suppliers many studies were advanced to explore, among other factors, whether location of other Japanese firms, especially from the same industrial grouping (keiretsu), in the USA or neighboring states had

any subsequent effect on the FDI by other firms and whether a historical buyer-supplier link in Japan would be re-created in new locations if both buyer and supplier engage in FDI. The results of these studies overwhelmingly suggested that the presence of major Japanese manufacturers significantly explained the subsequent entry by related ancillary firms. The image of a desire, by both buyer and supplier, to internalize a relationship in a foreign country was therefore a popular characterization of the motives and determinants of FDI behaviors of Japanese firms and ancillary firms in particular (transplant of Japanese industries) (Florida, and Kenney, 1991 ; Kenney, & Florida, 1993 ; Martin et al, 1995).

Although it is true that companies set up operations in foreign markets to form links with home-country buyer(s) that have facilities there, the ambiguity, in earlier empirical studies, remains on the descriptions of firm-level factors and relationship characteristics that can explain the existing variation in FDI behavior of among firms. In fact it is widely agreed that hardly all home based suppliers follow principal buyer's foreign moves as Martin et al (1995) indicated in their work that in total Japanese automobile assemble that operated in North America manufacturing facilities had re-created about a quarter of their Japanese supply links. The observations that only some firms, from a suppliers group of particular buyers, follow or replicate their relationships in foreign markets suggest that most of the earlier attempts to explain the foreign location behavior of Japanese ancillary firms generalized the influence of keiretsu affiliation or buyer-supplier relationship on individual firm leading to conceive that generally all Japanese ancillary firms follow their customers. Therefore, although these literatures were the breakthrough and continue to contribute to our understanding about the location behavior of some firms, it can be contended that just understanding the influence of inter-firm relationship on the location behavior of a focal

firm, without understanding firm-level factors and the dimensions of the relationship that influence the individual firms' decisions we cannot give a satisfactory explanation of why only some firms, and not others, respond to foreign activities of home-country buyer.

Based on the background given above, it is the intent of this paper to provide a new conceptual approach of analysis that moves away from focusing on the group behavior to explain factors that may influence individual firms. This work addresses the importance of detailed empirical examination of the firm-level factors and bilateral relationship characteristics, prior to assembler's overseas expansion, in order to identify possible factors that are conceived to propel individual ancillary firm towards FDI decisions. Of a particular relevance, this analysis is posited to present a methodological approach to establish how the aspects of historical buyer-supplier relationship may shape the FDI decision making of individual suppliers, in response to the overseas activities of a principal buyer. The theoretical motivation for this choice of analysis of whether a supplier will engage in FDI to follow home-country buyer is drawn from the consideration of resource based view of the firm (RBV) and the literature on the Japanese buyer-supplier relationship.

In order to examine factors that influence decision making of a supplier, two premises are supported by this analysis. Firstly, this analysis posits that individual suppliers have incentives to make independent choices about where to expand and who to deal with. The second premise is the consideration that even the incumbent suppliers have to compete with other potential suppliers (both in the link or in the buyer's waiting list), in terms of cost, quality and flexibility in order to be guaranteed repeat or increase in business and higher profit margins. These premises are in contrast to the conventional thinking of earlier studies on the buyer-supplier relationship

which implicated buyers to be dominant and suppliers tending to be captive to a single buyer and perceived suppliers like part of the organization of customer. In the work of Michael et al (1995), who studied the incentives that might lead assemblers that have expanded in North America to establish links with home-country suppliers, it is indicated that of all suppliers that had set-up facilities in North America only 60% could re-create their historical relationship and 16% developed new links with Japanese manufacturers with no history of transactions. These observations suggest that although firms face competition or reliance on a particular relationship they also have some discretion about their decisions. Following these premises the vantage point of a supplier is conceived suitable frame of analysis because, with or without request from buyer, it is the supplier who ultimately decides<sup>2)</sup> whether or not to follow overseas facilities of home-country buyer(s).

The conceptual framework and propositions of this paper are developed from the examination of the link between the facilities / activities of specific Japanese automotive assembler (Mazda) operating in China and the activities locations of its affiliated suppliers, between 2002 and 2007. The overseas activities, as used in this paper, capture overseas manufacturing subsidiaries, OEM arrangements and Joint Ventures (JVs) of both buyer and supplier<sup>3)</sup>. Appendix 2 provides an extract of Mazda's activities in China and conceptual effect on the timing of suppliers' decisions to engage in that particular market.

The analysis of this study utilizes some facts obtained from interviews with executives of eight Japanese auto-parts suppliers, in Japan, that supply parts and components to Mazda. The practical importance of examining the

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2 ) In this context supplier's decision to engage in FDI and firm's decision to sell to a particular buyer are treated as joint decision.

3 ) FDI is occasionally used in this paper to describe the overseas activities.

specific buyer-supplier relationship with small number of companies attached to one buyer was posited important as it enabled the author to take a close investigation of variations in FDI behavior across firms in order to spell out not only what determined the extent of overseas production but also to indicate important variables that can be good predictor of when, whether and where a firm may decide to engage in FDI.

In developing the analytical framework this paper elected China as a focus market of entry because it is a country that many Japanese automobile assemblers increased their participation through manufacturing subsidiaries, OEM arrangements and Joint Ventures (JVs) (see appendix 1). Being a recent case, therefore, China enabled the examination of historical ties and aspects or characteristics of a bilateral relationship, which may have shaped or influenced the entry or no entry decisions of individual Japanese ancillary firms. And the Japanese automotive industry being a prominent example of an industry where one encounters inter-firm relationship of a large scale (Dyer, 1994, 1996 ; Womack et.al, 1990) was considered a relevant setting for the analysis of the influence of buyer-supplier relationship on FDI behavior of individual firm.

Although the method and approach of this study will be discussed in the other section, it is important to note that the approach used here faces some limitations in terms of data and lack of statistical methods of analysis, as this paper uses qualitative description of firm-level data of a small sample of eight firms. However, despite these limitations contribution to enunciating a new avenue of analysis on FDI decisions and behavior of individual firms is deemed more important. It is believed that at the end this analysis provides the potential for rich analysis to grasp comprehensive features of Japanese firms, which will generate specific factors that influence the FDI decisions of individual firms.

The organization of this paper is as follows. The next section will discuss the background and motives of international expansion by Japanese ancillary firms. The motives and intension and an overview of industrial realignment are presented in order to provide a general insight about the pattern of FDI by Japanese supplier firms. After this section a discussion of dominant explanatory frameworks is presented in order to understand some theoretical explanation of firms' behavior when it comes to international market participations. A brief description of the methodology and approach adapted for this analysis will follow before the analysis of the FDI decision making of Japanese ancillary firms, which was drawn from the views and comments gathered from executives of eight Japanese auto-parts manufacturers, is presented. After these discussions a brief discussion on the buyer-supplier relationship common in Japanese auto industry will follows to provide the basis for discussion on possible propositions that are conceived to shape or influence the propensity of individual firm to engage in FDI following the foreign expansion of principal buyer. Last part of this paper will include the discussion on the motivation, potential usefulness and concluding remarks.

## **2 OVERVIEW : FDI BY JAPANESE ANCILLARY FIRMS**

Global location strategies of Japanese ancillary firms are said to have evolved considerably as a result of prolonged decline in orders from traditional buyers and intensifying worldwide competition due to new technology requirements and cost factors. Either in the wake of home-customers that have expanded into new regions, or incentives to reduce the cost of production, many suppliers seem to have staked their survival on establishing operation overseas mainly in China, Thailand, Indonesia, India and other South-

east Asian countries. There are also observations of several ancillary firms actively expanded their activities overseas to develop new areas of business in terms of customer or product diversification. Hence the foreign expansions by automobile parts suppliers can be described as a means to achieve stability in their output in Japan and / or to achieve independence from reliance on trade relationships with one or few customers.

## 2.1 Purpose of FDI by Japanese automobile ancillary firms

Recent surveys<sup>4)</sup> have suggested that mostly Japanese auto parts suppliers do not seem to be motivated by local market (as represented by GDP of a particular country) or low cost of investment in the host country but the presence of Japanese affiliated manufacturers. The average data compiled from the survey of overseas business activities of auto parts manufacturers by JAPIA (2003 to 2009), presented in figure 1, reveals that more than 70% of the output of the overseas subsidiaries of Japanese suppliers is supplied locally of which in year 2008 over 46%, and over 50% in prior years, was sold to affiliated companies of Japanese automobile manufacturers and about 10% was supplied locally mainly to repairs and / or to other suppliers. Only a small portion (about 5%) of the total produce is exported back to Japan, and around 20% exported to third countries<sup>5)</sup> according to the surveys by

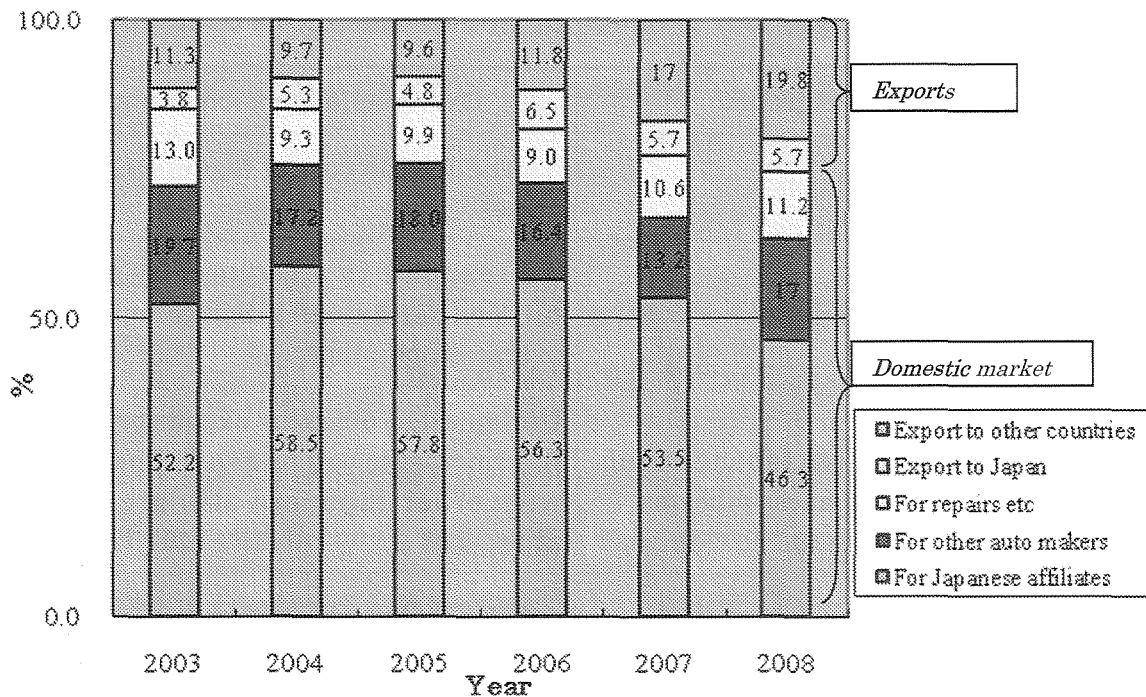
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4) METI's 37th overview of overseas business activity survey, which represent the purposes for overseas investment at the time of establishment of the overseas production (METI, 2007 : p99) and the one that is issued by Japanese Auto Parts Industry Association (JAPIA) on the overseas business activity by Japanese auto parts manufacturers (members of JAPIA),

5) Although it was not possible to establish exactly amount, most of the output exported to third country seem to go to facilities of Japanese assemblers in other countries. In the exploratory case study of eight companies it was indicated that most of the parts and components Mazda used in its assembly plants in Colombia, Ecuador, South Africa and Zimbabwe were mainly supplied



JAPIA. The results of these surveys are in line with the earlier empirical studies, which indicated that FDI location of ancillary firms follows that of principal firms like Toyota, Honda and the like (Blonigen et al, 2005 ; Hatani, 2009 ; Florida & Kenney, 1991 ; and Martin et al, 1995).



Source: Compiled from the survey of overseas business activities of auto parts manufacturers by Japan Auto Parts Industrial Association, JAPIA (2003 to 2009) [Online]<http://www.japia.or.jp/library> (Accessed 24 Nov 2010)

Figure 1 : Principal destination of products made by overseas subsidiaries of Japanese auto parts manufactures

Looking at the results of the surveys presented above it is reasonable to argue that while in reality the decision to establish production operations overseas is made based on an all-round judgment involving a number of related objectives and factors, the trends in Japanese automobile industry sug-

by AutoAlliance (Thailand), Mazda’s subsidiary in Thailand, as completely knocked down kits (CKD).

gests that the patterns of overseas expansion by Japanese suppliers fall broadly into the four categories, presented in table 1. These four categories of motivations to engage in FDI represent the principal destination<sup>6)</sup> of the products made by overseas subsidiaries of Japanese ancillary firms.

Table 1 : Purpose and intention of setting operations overseas

Purpose / Background	Overseas expansion intentions
1. Export products to Japan	To reduce the cost of manufacturing processes.
2. Sell products to local Japanese affiliates	To respond to a request by principal buyer that has or plans to established overseas operations.
3. Sell products to local Japanese non-affiliates and non-Japanese affiliates	Unrequested overseas expansion to appeal to principal buyer or expanding business with other Japanese affiliates or local firms.
4. Export products to third countries	To target new customers in the host market.

The principal destinations of output from the foreign subsidiaries of ancillary firms reveal that the motives for FDI by Japanese auto-parts suppliers follow three patterns. (1) They may be pulled into foreign markets by larger firms (major customers) or by artificial barriers such as tariffs and local content requirements. (2) They may be pushed to overseas production by conditions at home such as declining home market, competition or avoiding home country's restrictions (need to be independent). (3) They may engage

6) The motives and the destination of the products from overseas subsidiaries can vary according to the region, depending on the level of regulations such as the rate of local content requirements, industrialization, competition and the presence of Japanese affiliated manufacturers (appendix 6).

in FDI as a result of entirely entrepreneurial foresight, to establish early position in the growing market to tap new opportunities. However, with different motives, very different types of analysis may be necessary when focusing on the FDI of individual Japanese ancillary. In industries of the type of automobile suppliers may adapt any combination of all these investments to achieve optimum benefits, including the desire to develop or maintain their relationship with principal customer(s) while achieving growth and profitability.

### 3 DOMINANT PERSPECTIVES IN THE FDI BEHAVIOR OF JAPANESE FIRMS

Most of the hypotheses put forward to explain the FDI behavior of Japanese firms can be analyzed within the interaction of three basic strands, internalization theory, gravity theory and oligopolistic reaction or imitation behavior.

#### 3.1 Internalization theory

According to this school of thought FDI decisions represent critical strategic moves by Japanese firms, which are jointly determined by the use and development of their resources and capabilities unique to the organization. These firm-specific factors, which a firm ought to own to be competitive relative to others in the foreign market, may be built upon product or process technology, marketing or distribution skills (Hymer, 1976 ; Buckley and Casson, 1976 ; Dunning 2008 ; Kogut and Chang, 1991). Under this stream of thought the location choice and FDI of Japanese firms is described by factors which indicate the possession of specific intangible assets, such as ability to transfer efficient use of human resources, organizational and man-

agement skills specific to particular buyer, technologies, JIT manufacturing system, quality control system and privileged market in access to other Japanese affiliates. Indeed, therefore, close links with home-country buyers or a cooperative networks with other firms are conceived to provide Japanese firms with intangible firm-specific advantages that internalization theorists argue are needed to support Japanese firms foreign expansion. In the context of Japanese ancillary firms, the interest of internalization theory seems to shift from explaining firm's boundary to explain network or relationship boundaries. The logic for considering relationship boundaries is the argument that the presence of specific intangible assets such as technology, managerial and distribution skills, which are public goods within a relationship, enables the counterparts to engage in multiple production plants and activities without significant effort or resources (Buckley & Casson, 1976 ; Dunning, 2008 ; Kogut & Zander, 1993). Hence the potential for market failures connected to relationship specific assets give reasons for the desire by Japanese firms to replicate their economic activities when principal firms expand in the foreign markets.

It is obvious that the internalization theory argues its case from the angle that describes FDI as an instrument to reduce the high cost of using the markets due to the imperfections defined by property right and information asymmetry (Henart, 1982). Although this theory continues to contribute to our understanding of the extent of FDI activities and motives for individual firms, concern remains about the possible inadequacy in explaining factors that increase the propensity for a firm to engage in FDI. The internalization theory does not assert what firm-specific advantages are more important and how much a firm ought to have in order to be successful in foreign market. Also the internalization theory, as with other economic theories of MNEs, is criticized because its logic is primarily based on cost as the main

motive, without considering whether it will lead to increased total profitability. Porter M. (1986) shows that production outside home country will occur if a firm perceives the net benefits of supplying any given market or set of markets is best achieved by engaging in foreign production relative to some other modality. Therefore, the image that Japanese firms replicate what they already know from home may be an artificial characterization of the determinants of FDI location behavior because firms are said to engage in FDI only if they can maximize the net benefits both in the host country and at home.

### 3.2 Gravity theory

The second strand of literatures that can be used to explain the foreign location behavior of Japanese firms is based on factors specific to a particular country. These factors may be in the form of natural resource endowments, created resources such as institutions and infrastructures, human resource and other cultural factors. According to this stream of research the desire to benefit from the externalities associated with specific locations is considered to be the main factor explaining why FDI takes place (Helpman, 1984 ; Krugman, 1991 ; Markusen, 1984, 2002). As an extension of the internalization theory, this school of thought depicts that the desire by a firm to internalize its markets for intermediate<sup>7)</sup> products is a reaction to exogenous macro-level location advantage such as factors inputs, demand pattern, institutions, supply capabilities and government policies (Dunning 1981 ; Kogut & Zander, 1993 ; Porter, 1986). Based on the discussions of this strand of re-

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7) Although it may include ordinary semi-finished materials from one industry to another or from one stage of production to another more often this include the types of knowledge and expertise embodied in patents, human capital etc (Buckley & Casson 1976).

search the FDI by Japanese firms can be described as a rational response to trade barriers, market potential, investment incentives, availability of new-low cost location, local information spillovers, and the desire to avoid transportation costs.

Although studies under this stream have indicated multiple factors, the responses of Japanese firms to specific locations appear to be explained by the presence of Japanese manufacturer, particularly those with prior exchange relationship (Banerji & Sambharya, 1996 ; Blonigen et al, 2005 ; Florida & Kenney, 1991, 1995 ; Head et al, 1995 ; Martin et al, 1995). Mainly in automobile industry the results of earlier empirical studies indicated the evidence for agglomeration economies between firms with close relationship, particularly formal buyer-supplier relationships (Kenney & Florida, 1993).

### 3.3 Imitation Behavior

Connected to the school of thought mentioned above, two types of imitation behavior, competitive reaction and mimetic isomorphism, can be observed when examining the FDI behavior of Japanese FDI<sup>8)</sup>. While the former describes the bunching behavior of Japanese firms, that is market entry that occurs immediately after the rival has entered a host country (Knickerbocker, 1973 ; Yamawaki, 1998), the later describes the tendencies of firms becoming similar to each other through imitation of other's actions (DiMaggio & Powell, 1983 ; Guillen 2003 ; Haunschild & Miner, 1997 ; Heve-man, 1993). The impetus to FDI under oligopolistic rivalry imitation is parti-

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8) The terms are not mutually exclusive. Both imitative behaviors can occur simultaneously because firms can be responding to common environmental shocks. A firm may follow another firm out of belief that rivals may possess superior information at the same time imitating the rival to maintain its competitive parity.

cularly relating to the desire to protect firm's position in its important market while not to forego new market potential. This kind of behavior is prominent in large players in Japanese automotive and electronics industries as well as in the ancillary firms that follow international trajectory.

The mimetic-isomorphism, on the other hand, is rooted from some cooperative reactions, the behavior that is prominent in automobile industry supplier systems. Henisz & Delio (2001), for example, indicate that the FDI of large firms tend to trigger a series of FDI by other firms in the network. Under this thinking firms that engage in FDI are either motivated by the incentive to maintain their historical ties or desire to maintain their reputation and distinctiveness. In both situations the legitimacy of making imitative or responsive decisions or actions tend to be determined by the number of firms, at least in the same group, that have made similar decisions or succeeded from those decisions or actions (Chan et al, 2006 ; Henisz & Delio, 2001). Firms maintain their reputation because, if more firms from at least similar industry are committed to develop their businesses overseas, similar moves by a focal firm demonstrates its commitment and desire to maintain its position. Therefore, the attempt to replicate Japanese suppliers and management system overseas is a good observation to support the cooperative reactions (Havenman, 1993 ; Cusumano & Takeshi, 1991).

From the discussions of this school of thought it is depicted that both the competitive (follow-the-leader) and cooperative reaction (follow-the-customer) behaviors provide some degree of the legitimacy of the new market, which has been identified as a primary concern for firm's decision to engage in FDI (Hymer, 1976 ; Henisz & Delios, 2002). This perspective also portrays reality that firm's environment is not completely given by external forces but influenced and manipulated by the firm's internal forces and existence of external known actors (Pfeffer & Salancik, 1978). However, despite

its continuing contribution in the field of international business studies the weakness of imitation behavior theory remains on it being more pertinent to industrial consideration leaving us with little understanding about important factors that can suggest a firm being more alert or sensitive to its environment.

### Synthesis

The theories discussed above have highlighted some important factors that explain the extent and the determinants of locations for overseas production. As it has been pointed out in the preceded discussions, concerns remain on the ambiguity about which firm-level and relationship factors are more important when it comes to decisions, by individual firm, whether or not to engage in FDI. Although it is true that companies set up operations in new markets often form supply links with home-country customers (Vernon, 1971), it is well known that firms have some discretions on the extent and mode of international activities that is why it is unlikely that all suppliers will move to the new location with the principal firm (Martin et al, 1995). Therefore, the whole embracing hypothesis of follow-the-customer as applied to various conceptual frameworks, seems to provide partial explanation on the actual activities and practices of individual firms. The conventional explanations seem to have ignored the importance of diversity and complexity of experiential resources of individual firms, which may be a break through to provide some clues about the factors that influence the individual FDI decision-making. Owing to this weakness the examination of aspects of specific buyer-supplier relationships is deemed necessary.



## 4 Analytical Method and Approach

Investigating firms' decision towards responding to overseas facilities of principal buyer involves a number of empirical challenges. Publicly available data may not reflect actual behaviors of individual firms and therefore provide no insight into the attention of firms when it comes to making FDI decision. Owing to these challenges the arguments of this paper largely utilizes information gathered from eight Japanese automobile parts suppliers consisting of interviews with the head-office executives and supplemented by insights from existing literatures and other documentary evidence. Interviews evidence was sought in order to identify historical aspects of buyer-supplier relationship associated with suppliers' prioritizing of FDI as a mode of market participation following overseas expansions by principal buyer(s). To achieve the objectives of this work the exploratory interviews attended both investing (seven companies) and non-investing (one company) firms.

Although the number of observations did not readily permit standard quantitative analysis, a systematic investigation of the relationships of causal factors that emerged from the interviews with executives of eight Japanese auto-parts suppliers was considered to be more important because it enabled the construction of a conceptual and testable framework of analysis (Eisenhardt, 1989). In other words the exploratory case research on a small number of ancillary firms linked to specific buyer was more suitable for articulating factors conceived to influence FDI decision making, by ancillary firms, given home-country buyer(s) participates in overseas activities.

### Sample selection

Automobile parts suppliers were randomly chosen from a list of supplier firms affiliated to Mazda Auto Corporation. Due to time constraints the first

come first saved approach was applied and the appointments were fixed to fit authors schedule. The motive for selecting supplier that are affiliated to Mazda was the fact that there are few, if any, studies to explain Japanese suppliers system conducted on Mazda as compared to other giant auto manufacturers like Toyota and Nissan. Examination of the FDI location behavior of Japanese firms from Mazda's perspective is conceived to enable researchers to apply the facts gathered for this study on the existing literatures about Japanese supplier systems and ultimately explain the complex relationship between FDI of individual firm in Japanese automobile industry. Table 2 provides an overview of the profile of supplier firms attended in the interviews conducted for this study.

### **Data collection**

The description and narration of facts used in this paper are drawn upon interviews, company histories and unpublished materials made available by the respective companies during the interviews that were conducted in 2008, three companies, and in 2010, five companies. The interviews, which were conducted in native language, each lasting for about two hours, provided details on the customer-supplier relationship and the influence of this relationship on the FDI by the individual suppliers. More important, the case studies revealed the parent firm's motives and intentions to engage in FDI and important factors that were considered when selecting location of overseas facilities. The analytical setting of the exploratory interviews was developed to examine the link between the manufacturing activities of Mazda Motor Corp. (Mazda) in China and firm-level and bilateral relationship factors that might have shaped the type of responses of its affiliated suppliers between 2001 and 2008. Therefore, the views and comments that were gathered from executives of eight ancillary firms helped the investigation of

**Table 2: Introductory profiles of the eight case studies of auto-parts manufacturers**

	J1	J2	J3	J4	J5	J6	J7	J8
Date Interviewed	16-Sep-08	16-Sep-08	16-Sep-08	12-Jul-10	14-Jul-10	12-Jul-10	13-Jul-10	9-Jul-10
Respondents' Position	Executive manager & Corporate	President & General affairs Manager	Chief Manager	Executive Vice President	General Manager	Manager, overseas business section	President	Executive office, General Manager
Year of establishment	+ 2001	1953	1958	++ 2007	1958	1950	1937	1965
Capital	Yen192m	Yen232m	Yen253m	Yen1.55bn	Yen224m	Yen144m	Yen42m	Yen172m
Number of employees	657	768	499	1,880	736	454	180	660
Mazda has shareholding?	Yes	No	No	No	No	No	No	No
% of auto products	95%	97%	40%	70%	95%	72%	90%	100%
% of Sales that goes to Mazda	90%	70%	35%	80%	62%	60%	90%	90%
Main product categories	Fuel system, Outer panel, Body shell parts	Automobile seats, seat tracks, shifters, sun visors, ashtrays, door checkers and recliner.	Rubber, Plastic and painting products	Interior parts, trim parts, exterior parts, engine parts	Door shell, stamping muffler, die, jig and equipment	Window glass, door mirrors	Bearing covers, door Hinges and door rollers.	Door trims, seat trims and module carriers
Overseas manufacturing subsidiaries	2	7	5	6	7	4	3	2
Host Countries (Year of Entry)	China (2004), USA (2006)	Thailand -2 (1993, 2007), China -4 (2002, 2003, 2005, 2007)	China (2003), USA (1990), Thailand (1994), Mexico (1999), German (2001)	Korea (2001), Thailand -2 (2004, 2005), China -2 (1997, 2005), Taiwan (1990)	USA (1988), Mexico (1998), Korea (1987), Thailand (1997), China -2 (2006, 2007),	USA -2 (1986, 2003), China (2002), India (2009)	China -2 (2004, 2007), Thailand (1992)	Philippines (1998), China (2005)
<p>Notes :</p> <p>Number of employee and capital have been adjusted up by 20% (+/-) and information collected on companies is suppressed to protect the identity of the companies.</p> <p>+ : Merger of 2 companies, all founded in 1956</p> <p>++ : Merger of 2 companies, one founded in 1953 and the other in 1961.</p>								

contemporary phenomenon within its real-life context (Eisenhardt, 1989).

In all rounds of interviews questions were formulated in a way that would enable investigation of the working propositions. Propositions were not explicitly addressed in order to avoid some bias due to stylized facts. Additionally, interviewees were assured of anonymity to reduce potential social desirability bias. Identical questionnaires were given to all the companies in the sample prior to the visit, and open discussion interviews were conducted, allowing the interviewer to grasp clear understanding of the firm's motives and consideration for FDI decisions. Respondents were asked to provide an account of the development and evolution of their exchange relationship with Mazda and their overseas production operations. The participating companies were specifically asked to describe the relationship with identified customer, Mazda, and how that relationship triggered and motivated their consideration "to engage" or "not to engage" in overseas production. As shown in Appendix 5 which provides an extract of the interview protocol, the data was collected dealing with past and present incidents together with respondents' experience and ideas of the present and future events.

All interviews involved executive president and / or executive managers of parent companies located in Hiroshima, Japan. Some interviews were recorded in order to clarify where points were not captured clearly. The items of the interview were revised following each interview and at the end the feedback from the respondents indicated the scale items were clear, meaningful and relevant for the study. And since interviewees were all part of the decision makers the information gathered regarding the buyer-supplier relationship and FDI decisions was considered well informed and correct information. It was interesting to note that no significant differences were observed on the information gathered from all respondents despite the

fact that they were conducted in different companies and at different times. From these interviews new insights were obtained as well as responses, which mostly confirmed what was identified as Japanese suppliers system by earlier studies. The views and comments of respondents therefore are very valuable in support of empirical analysis of the FDI behavior of Japanese suppliers.

## 5 CASE ANALYSIS : FDI DECISION MAKING BY ANCILLARY FIRMS

This case analysis illustrates the FDI decision making of an ancillary firm when a home-country buyer expands its activities in a particular country. In summary the narration of the FDI decision making, as gathered from the conversation interview, depicts that although ultimately it is the buyer who choose a supplier, a supplier similarly has incentives to make independent choice about where and how to expand and who to deal with. After weighing all costs and benefits a supplier is conceived to apply its discretion on either to export or to manufacture locally if home-country buyer locates activities in a certain country.

### **Why not exporting ?**

While export is perceived by many managers as less risky mode of market entry, importing is known to be prohibitively expensive due to transportation costs, tariffs and artificial barriers and political pressure for local content requirements. A supplier that embarks in this mode of market entry may become less competitive, compared to those suppliers who manufacture locally, because, to the buyer, the importation barriers represent perceived risk of unpredictable fluctuations in product costs and business interrup-

tions. So owing to the fact that Japanese assemblers are sure to choose a supplier who can supply locally over the one that supplies similar quality but only in Japan, incumbent supplier who pursue export as a strategy may face a high operational and financial risks due to the potential switching cost of non-fungible nature of relationship assets, if assembler establishes new relationship in overseas markets and replicates it in Japan. Based on this view, the entry into foreign market is not necessarily attracted by the volume and profit but as a measure to preempt potential competitors entering into business relationships with principal buyer.

### **Why engaging in FDI ?**

Although conventional explanation that underlies earlier studies, based on the follow-the-customer hypothesis, suggested FDI to be an obvious option when a principal buyer expands overseas, the executives interviewed mostly indicated that they would prefer exporting to FDI because of predicaments that FDI poses. The main disincentives for FDI were indicated to be the need to operate different production systems in two locations or operate the facility below optimal scale because, often, foreign facilities of home-country buyers, at least at the beginning, tend to produce substantially smaller volumes compared to home country. Also lack of enough resources, especially human resources, capable of managing overseas facilities was pointed out to among the factors that makes export a desirable option. In one case operation manager of interviewed company indicated that he travel every one week to alternate in three offices to managing activities in Thailand and China on top of its role in the head office. However, despite of these disincentives, generally respondents resigned to the predicaments of FDI resulting from the high risk of losing business due to the threat of new entrants, and / or leakage of technology if they fail to supply locally. The leakage of tech-

nology was attributed to the possibility of buying firm giving local suppliers drawings of the products supplied by incumbent supplier(s) that failed to locate activities alongside the buyer. Based on these accounts the combination of expectation for opportunities to sell more to the buyer in the home market and threat of greater economic harm if the buyer withdraws its business were depicted to have potential influence on the choice of ancillary firms to engage in FDI. The president of one company that was interviewed commented that they considered engaging in FDI following principal buyer's foreign locations not because of the incentive for profit in the host country but as a measure of achieving the stability in the absorption of company's outputs in Japan where they have already committed huge amount of investments.

The discussion why FDI and Not export represents a situation where there is a strong initiating force from the firm's relation with principal customer that propels individual suppliers along the path towards FDI. This argument is in line with the views presented in the works of Aharoni (1966) and Knickerbrocker (1973) which indicated the pressure to engage in FDI to come in reaction to factors, such as the fear of losing home market due to competition from other firms and shortage of enough resources to diversify specific needs of many customers. In the atmosphere of exchange relationship that exists in Japanese automobile industry this seems to be true because any supplier must portray its distinctiveness by being flexible to locate facilities where a principal buyer expands, on top of cost and quality, in order to appeal and attract the home-country buyer. This discussion leads to conceptualization of the combinations of relationship specific investments and a commitment to long term sole sourcing relationships with competition among suppliers (parallel sourcing) as important dimensions which may influence ancillary firm's desirability to follow overseas activities of a home

buyer.

### Why not engaging in FDI ?

While the generalization of earlier studies on the FDI location behavior of Japanese firms may seem to suggest that all affiliated suppliers follow the overseas locations of their principal buyers, in practice, not all firms decide to engage in FDI. From the response of non-investing firm it was noted that, although firms recognize the potential to either re-create or extend their relationships with Japanese assemblers, their initial engagement in a foreign market is a function of the expectation they can form about the potential to utilize existing technical and organizational skills suited to the assembler(s) in the new market. The incentive to follow the overseas activities of the buyer is said to depend on the extent that the foreign activities of a buyer relates to the accumulated experience and activities at home country. Mainly describing the way suppliers are commissioned business, respondents emphasized that since orders are commissioned based on particular car model(s) it is unlikely to engage in FDI if principal buyer engages in different or unfamiliar car model. A good example is found in Mazda's operations in China, where only three car models are assembled out of fourteen models manufactured in Japan. This suggests that not all suppliers affiliated to Mazda will find the incentive to engage in China unless if their activities are linked and or expect to be linked with the car models manufactured in China.

Other relational factors, which were indicated as disincentive to engage in FDI included the increasing trend of Japanese assemblers towards international alliances and Joint Ventures (appendix 3 & 4 present the case of Mazda in China and its global networks respectively). The implication here is that the FDI decision by ancillary firms will largely depend on the degree



of expectation about the next round of transaction. For example the joint venture with Ford and other OEM arrangements with local manufacturers have been noted to be example of the new trends that have changed the architecture of business relationship between Mazda and its home-country suppliers based in Thailand and China. Mostly these joint ventures and OEM agreements force home-country buyer to adapt global procurement strategies pushing out many eligible incumbent Japanese suppliers. With these trends increasing, Japanese auto-parts suppliers are not automatically guaranteed of the market once they follow activities of principal buyers. Therefore the facts gathered from the interviews indicate that a firm will engage in a market where expectation of the relationship to be consistent with prior trading negotiations is reasonable high. The evidence from table 2, which indicates interviewed suppliers having their presence only in few countries, especially in Asia and U.S.A, out of fourteen countries where Mazda assembles / manufactures its car models suggests the importance of understanding the architecture of relationships between assembler and local partners in order to identify factors that may predict the behaviors of individual ancillary firms.

The business alliance between suppliers was also indicated to affect the individual suppliers' decision to engage in FDI in China because they have OEM arrangements with each other that restrict both firms to engage in one market. So based on identified factors, as well as implicit factors, risk averse suppliers are seem more likely to remain domestic. Figure 2 provides a description of the motives for FDI decisions by individual ancillary firms based on the narration of the answers to the three questions presented above.



Figure 2 : Explanation of FDI by Japanese auto-parts suppliers

### Synthesis

The preceded discussion depicts that the FDI behavior of individual supplier may be driven independently by economic as well as normative rationales - seeking to increase market power, access to resources, minimize transaction costs (Buckley & Casson 1976 ; Rugman, 1981 ; Hennart, 1982) and / or to preempt potential competitors in order to protect its position and assets at home (Knickerbrocker, 1973). The insights drawn from this discussion suggests that some firms can apply their mindsets, established through experience and learning in prior domestic business, to choose how to respond to the realignment of business landscape. Supplier's consideration of whether to engage in FDI in a way, therefore, will depend on its estimation of the likely alternative outcomes, assessment of uncertainty and attitudes of its counterparts. This is to say that the experiential diversity and complexities implanted and embedded within the mindsets of individual firms, manifest of various responses to stimuli, give reasons for variations in FDI behavior, with some firms remaining domestic and others committing to foreign expansion (Nadkarni & Perez, 2007).

After understanding the motives and stimuli that may propel individual ancillary firm towards FDI alongside home-country buyer, the description of Japanese buyer-supplier relationship is presented in the next section. This

discussion is set to be a background on which firm and relationship characteristics, which may suggest a firm being sensitive to foreign establishments of home-country buyer, can be identified. The analysis of the Japanese buyer-supplier relationship is believed to have a potential to provide some possible explanatory factors, discussed in section seven, that may shape or influence the likelihood of individual firm to engage in FDI.

## 6 BACKGROUND : JAPANESE BUYER-SUPPLIER RELATIONSHIPS

It is well known from many previous studies that the formidable success of Japanese automobile industry stems, to a great extent, from the strength of Japanese subcontracting structure, attributed to the mutual relationship between assemblers and suppliers and strong inclination towards network form of doing business (Dyer, 1994, 1996 ; Richardson, 1993 ; Womack et al, 1990). The network structure of the automobile industry consists of clusters of independently managed firms which maintain close and stable business ties, consolidated by means of business alliances, trading relations, common ties to a powerful bank, interlocking directories, and partial cross-ownerships. Notably among these linkages are traditional diversified enterprise group (*keiretsu*), subcontract arrangements (*shita-uke gyosha*) and suppliers associations (*kyoryoku kai*).

Although occasionally scholars have used the three inter-firm links as synonyms, in practice they represent different things. While in its simplest form *keiretsu* describes something like "link", "affiliate with" or "connect to" important actors in the industry (Miyashita & Russell, 1994 p.7) which can either be vertically or horizontally, the buyer-supplier relationship is captured by the understanding subcontracting system (*shita-uke gyosha*). Sub-

contractor is described as a supplier, either keiretsu member or independent firm, that works on relatively specialized inputs, which are then incorporated into the final product of the buying firm. Japanese automobile manufacturers significantly depend on the subcontracting system as it is indicated that presently they add only around 20% to 30% of the value to their products the remainder being the responsibility of their subcontractors (JETRO, 2005). Owing to the importance of subcontractors, therefore, it is a common practice for each Japanese automobile manufacturer to organize groups of the important suppliers (Kyoryokukai) to strengthen trust, to share knowledge and expertise, and to facilitate joint development and learning. It is important to note that supplier associations are typically supplier portals of Japanese assemblers, which consist of overlapping memberships of only those important subcontractors to respective assembler and does not represent a group of all suppliers.

### 6.1 Characteristics of Japanese Buyer-supplier relationship

The nature of Japanese buyer-supplier relationships typically portrays overlapping<sup>9)</sup> pyramidal structure with the automobile manufacturers at its apex and automobile parts manufacturers at the bottom, comprising of both large- and smaller-scale, broadly divided into first-tier<sup>10)</sup> second-tier and third-tier. Based on the perceived importance, assemblers either provide dra-

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9) Although the pyramid structure represents the traditional Japanese subcontracting system, recently it is observed that Japanese subcontracting increasing drifting toward the extremes of arms-length contracting (Ahmadjian C. L et al 2001) creating new “network-type” organization resembling to “mountain range” like structure (Witt, 2006).

10) These are not mutually exclusive categories. The same may be a first-tier supplier with respect to one assembler, but a second- or third-tier with respect to another.

wings unilaterally or may approach a supplier with rough idea of its requirements upon which a supplier provides drawings to be approved by assembler. It is very common, in both cases, for automobile assemblers to use the strength of its resources and know-how to provide the suppliers with technical assistance and allowing the suppliers to participate in the product development process from the product design stage onwards. The technical and other supports can involve assembler's engineers and managers to work at suppliers' site on either permanent or temporary basis, holding shares, dispatch suppliers' engineers to assembler's sites as guest engineers, involve suppliers' engineers when a new model is developed and through technological licensing. These supports from automakers ultimately create the norm of reciprocal obligation leading involved suppliers also to commit resources in the creation of relation specific investment in areas such as plant proximity, knowledge, skills and physical assets such as dies, moulds and jogs to cater for a particular customer for a particular car model (Asanuma 1989 ; Dyer, 1994).

Although, encouraged by the cooperation attitude of principal buyers, suppliers commit significant resources on the relation specific investments for mutual advantages, they are also subjected to a ruthlessly competitive environment since every supplier must match its rivals' prices, quality and flexibility in order to be guaranteed repeat or increase in business and higher profit margins (Asanuma, 1985a, and b). The contestable nature of Japanese buyer-supplier relationship is attributed to the common practices by automakers to deploy multiple sources (parallel sourcing strategy), keeping potential rivals together, with a long list of eligible candidates at a reserve, supplying the same part or component but for different models (Asanuma, 1985b ; Richardson, 1993). As noted, the systems that combine specific investments and a commitment to long-term sole sourcing relationships with

competition among suppliers for expanded opportunities make Japanese buyer-supplier system a contestable market. The implication here is that at any time a trading partner with Japanese automaker will be the firm that does the job better than their potential rivals.

## 6.2 Basis of Japanese buyer-supplier relationship

Three aspects describing Japanese buyer-supplier relationship can be identified from the discussion above. Firstly, participating firms are prepared to interact with each other, both in exchange (transaction) and adaptation, and expect each other to do so. Secondly business will be given to a supplier with the lowest cost and best quality. Thirdly firms are free to enter or exit the relationship and are free to choose the counterparts. However, assumed order based power enables principal buyer to ultimately choose a subcontractor from a pool of potential suppliers. The freedom to enter or exit give incumbent supplier added incentive for high performance and flexibility that comes from a credible threat from a powerful partner to switch to other potential suppliers, especially so if the supplier must invest in narrowly specialized investments whose value depends on the long time relationship. These characteristics all make the exchange of products just one aspect of the multi-faceted relationship between legally independent entities. The portrait of the characteristics of Japanese buyer-supplier relationship is provided in the figure 3 below.

Well aware of Japanese buyer-supplier relationship portraying important aspects and routines which leverage the opportunities as well as the constraints, as illustrated in the discussion above, the assertions and other dimensions of the relationship have not been empirically tested to identify their links to the FDI decisions of individual suppliers. Owing to this fact it is the prime intent of the remaining part of this paper to analyze the atten-

tion of executives of eight auto-parts suppliers when it comes to decisions to follow overseas activities of home-country buyer. The next discussion develop a potential framework by suggesting some propositions that, if measured and tested, may lead to enunciating a new avenue of analysis to determine the variation in the FDI behavior of individual firms.

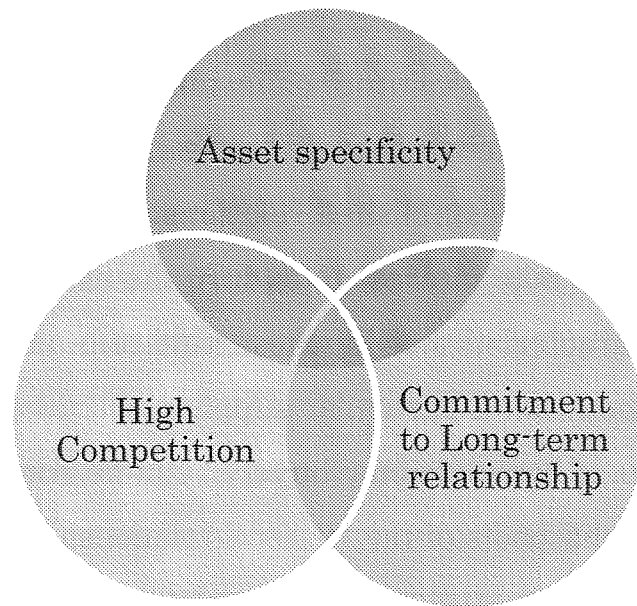


Figure 3 : Characteristics of Japanese buyer-supplier relationships

## 7 DEVELOPING A CONCEPTUAL FRAMEWORK

The case analysis of FDI decision making, presented in section five, has identified some possible motivations for FDI behavior of individual suppliers, mainly being confronting opportunities to reduce dependency on one market and portraying distinctiveness so that to protect existing and future business. Integrating the insights obtained from the views and comments of executives of eight Japanese ancillary firms with the discussion of the characteristics of Japanese buyer-supplier relationships in section six, we can advance possible explanation of causal factors that are conceived to influ-

ence the subsequent decision of individual firms whether to follow overseas activities of principal buyer.

The discussion on Japanese kind of buyer-supplier relationships indicates that firms that are involved in the trading relationship form links and bonds for long-term relations in which, there may be business alliances, inter-firm shareholding, adaptation of product as well as processes, intensive knowledge and technology transfer specific to particular partner and ultimately developed routines or institutionalization. In a way suppliers as well as buyers develop homogeneity of attributes and characteristics, which may carry no value outside the established relationship giving reasons for relative dependent firm to take interest to endure the established relationship. The influence of characteristics of Japanese kind of buyer-supplier relationships on the likelihood that a particular supplier will take interest to follow overseas expansions of home-country buyer(s) can be considered under processual and structural aspects of the bilateral relationship.

### **7.1 Structural aspect of bilateral relationship**

The structured aspect, which reflects the role of developed norms and embeddedness, explores how related resources of participating firms, coordination of their activities (in terms of design and time) and ultimate change in perception of each other provide incentives for participating firms to engage in FDI in order to maintain or protect existing relationship. The Japanese buyer-supplier relationship demonstrates several important contemporary business practices, which capture the degree to which the systems, procedures, and routines of the buying and selling organizations have been linked. Respectively, products and process adjustments (physical asset specificity), knowledge about other counterparties, personal confidence and liking (human asset specificity) and logistical and process coordination (site



proximity) can exemplify bonds of various kinds that create vector of forces necessitating participants to bond together. The time and efforts required for these investments, to include commitment to adapt to each other technically by modifying products or production processes, logistically by developing a common ordering and replenishment system (example JIT), administratively by modifying planning and scheduling systems and in terms of knowledge and attitudes by carrying out joint technical and management development (Dyer, 1994 ; McMillan 1996), give reason for suppliers to have interest on ensuring continuing trading with the same partners (Hakansson & Sharma, 1996 ; Pfeffer& Salancik, 1978).

Other contents of this aspect that may be considered to capture the degree of bond between participating firms may include the nature of business alliances, and personnel linkage. The nature of business alliances may be examined at three levels, between buyer and supplier, between buyers (example Mazda and Ford), and between suppliers. The personnel relationship, which may represent knowledge about counterpart, may be captured by the number of senior management and engineering officials hired from principal buyer and / or the number of engineers or other personnel who have been dispatched to buyer's plants. The structural aspect can consider the influence of the position of a supplier in the channel, either a supplier supplies direct or indirect, or a supplier is involved in exclusive or non-exclusive supply relationships.

## **7.2 Processual aspect of bilateral relationship**

The second aspect, processual aspect of bilateral relationship, intends to examine the influence of established processes and routines employed by participating firms on the FDI decision by a focal firm (Heide & Miner, 1992 ; Pfeffer& Salancik, 1978). The contents of this aspect of the relationship re-

flect the predictability of the actions of business relationship partner. Fostered by a supportive structural environment of the relationship, it is conceived that inter-organizational routines serve as signals of long-term commitment and therefore stable and consistent exchange relationship is likely to increase the propensity of participating firm to follow the moves of established trading partner. Based on the notion of history of interaction an ancillary firm, trusting that rules of the game will remain more-or-less the same (Anderson & Narus, 1986), will have the incentive to prioritize FDI. The notion of history of interaction episodes, which is measured by the frequency of repeated business transactions (business renewal), is conceived to serve as implicit or explicit pledges of cooperative behaviors of the buyer to be consistent with the bilateral relationship system in Japan, if an ancillary firm engaged in the next round of exchange (Anderson, & Weitz, 1989 ; Dwyer, et al, 1987 ; Heide & Miner, 1992).

The propositions identified above although represent the vector of forces that create impediments to the termination of the relationship they are not universal but vary across dyadic relationships in the industry. Controlling for firm size, firm specific experience, and industrial factors such as firm's dependency on the industry, it is expected that different firms will feel the pressure to follow-the-customer differently. Considering all other possible factors, it is generally argued that firms with high level of structural and processual bonds are more likely to commit to follow their home-country buyer in order to endure continuation of exchange relationship than firms with lower levels of structural and processual bonds. The levels of these bonds will also reflect the level of trust the supplier has on the next round of exchange relationship with existing buyer.

## 8 Concluding Remarks

It is indicated that firms involved in the trading relationship form links and bonds for long-term relations. These links and bonds, which are built on business alliances, inter-firm shareholding, adaptation of product as well as processes, intensive knowledge and technology and developed routines, make more dependent firms to trade on the assumption that the relationship will continue, if not for ever, for long time. Since the bonds and links are based on the notion of experiential resources, the discussions in this paper also depicts that individual suppliers can apply their mindsets, established through experience and learning, to make independent choices of whether to follow the overseas activities of home-country buyer. The incentives for making FDI decisions come from the credible threat from potential entrants and constraints that results from dependence on only home-country buyers. This approach of analysis portrays the potential explanation to confirm that FDI decisions by any individual firm take into account not only what is happening today but also, largely, the thinking made in the past (Johanson & Vahlne 2009 ; Rugman & D'Cruz, 2000).

The contribution of this study, therefore, is more a methodological than theoretical approach because it has elaborated a framework of analysis, which captures the actors, activities and resources aspects of the individual firms that have the potential for identifying and explaining variations in the FDI behavior of firms. The analysis presented here emphasizes that if detailed analysis of buyer-supplier relationship is conducted and if the aspects of the dyadic relationship can be constructed, measured and tested, in a way, there is a great potential to refine the underlying assumptions of follow-the-customer hypothesis to be able to explain why only some firms follow the activities of principal buyer(s).

Finally, although this paper is no exception in research design and methodology limitations as indicated earlier, the potential contribution to enunciating a new avenue of analysis on FDI behavior of firms is considered to be crucial. In the absence of a unified methodology for constructing and measuring the contents of the buyer-supplier kind of relationship, which can predict the behavior of individual firm, the results of this study can be used to help to further develop the picture by measuring and testing of the identified aspects of the relationship. This framework can also be applied in other industries, which show closer relationship between buyers and suppliers, such as in electronics, professional services, hospitality, and apparel (fashion) industries.

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Appendix 1: Entries/activities by Japanese auto manufactures in China

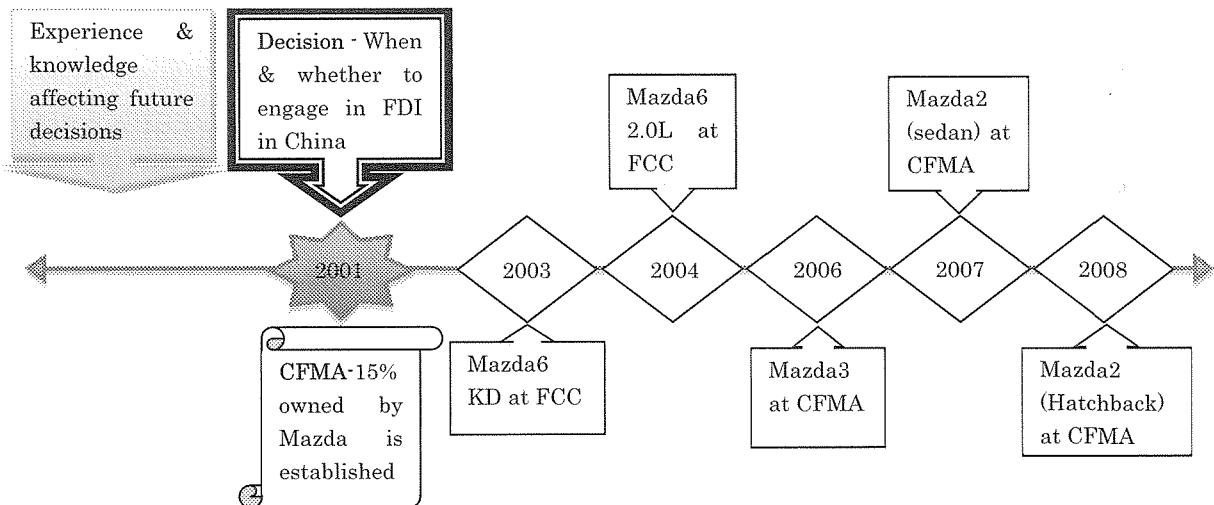
		YEAR									
		Before 1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Assemblers	Toyota	○	●		●		●○	○	●		
	Nissan					●					
	Honda	●○					●	○●			
	Mitsubishi	○									
	Mazda					●	●		●	●	●
	Suzuki	●									
	Daihatsu									○	
	Subaru			○							
	Isuzu	●○	●								
	Hino		●			○					
	Nissan Diesel	●									

Key:

●	Engages in Automotive manufacturing activities
○	Engages in auto-parts, engine, and body manufacturing activities

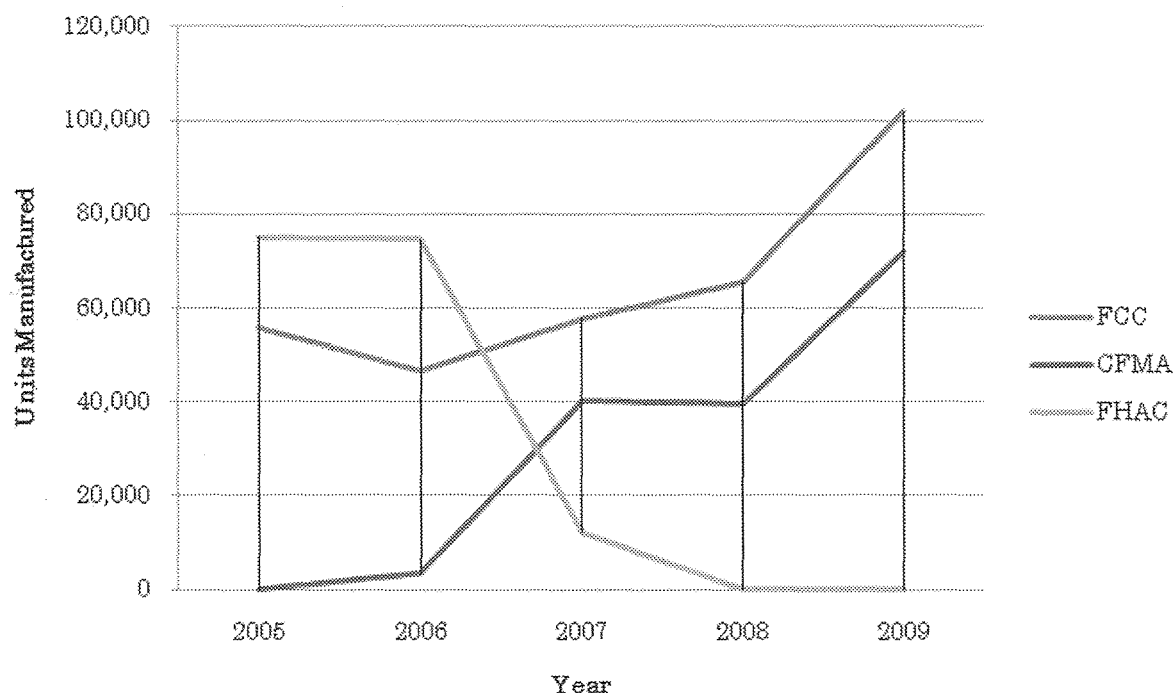
Source: Compiled from the yearly data books of the affairs of respective companies published by IRC Inc. and Various annual data book of overseas operations of Japanese firms, published by Toyo Keizai Inc. latest being the one published in 2009.

Appendix 2: Mazda's activities in China



Note: CFMA = Changan Ford Mazda Automobile Co. Ltd., (15% owned by Mazda)  
 FCC = FAW Car Co. Ltd. (Mazda does not have any stake but Toyota)  
 ◇ Mazda 2, Mazda 3 and Mazda6 are Mazda's car models manufactured in China.

## Appendix 3: Mazda's vehicles manufactured in China



## Notes:

- ① FCC = FAW Car Co. Ltd. (OEM arrangement)
- ② CFMA = Changan Ford Mazda Automobile Co. Ltd (15% owned by Mazda) has two plants, in Chongqing, started in Feb 2006 and Nanjing, from Oct 2007
- ③ FHAC = FAW Haima Automobile Co. Ltd (OEM arrangement) production was suspended from Dec 2007

Source: Compiled from the Current affairs of Mazda group (*Matsuda no gurupu jittai 2009 nendo*) published by IRC Inc. in 2009

## Appendix 4 : Description of Mazda's overseas operations.

- Mazda's car models are manufactured in 14 different countries.
- Out of these locations, Mazda has only four subsidiaries (more than 25%) in the USA, Colombia, Thailand and Zimbabwe and other two affiliated company in China (15%) and India (15.6%).
- The countries where some of Mazda's car models are manufactured under alliances / OEM agreements are Spain, China, the Philippines, Taiwan-China, Ecuador, Vietnam and South Africa.
- While Mazda's production activities in China, Thailand and USA source mainly use locally produced parts and components other locations import kit containing the parts needed to assemble a car model (complete knock-down also known as CDK) mostly from Mazda in Japan or Auto-Alliance (Thailand) (AAT) (a subsidiary of Mazda).

**Appendix 5 : Extract of the interview protocol****I. History of the company**

1. Please tell us how your company developed and evolved over time and in relation to your business relationship with Mazda. Include in your explanation, when and how did your company secured first business relationship with Mazda.

**II. Relationship with Mazda and relative dependence**

1. Apart from supply relationship, what other aspects / support does your company benefit from the relationship with Mazda? Describe the extent of assistance received from Mazda (technological, technical-including trainings, and managerial assistance and any other)
2. Suppose that your company were to start selling the same or similar components to another buyer how much time would the switchover take until satisfactory relationship could be established with new buyer? (Consider time required to locate, redesign the components, modify plant and equipments, train new buyer, and making the necessary administrative procedures)

3. Can you survive without Mazda?

**III. Competitiveness of your company**

1. What are the core competences of your company relative to other firms supplying the same products to Mazda and those supplying to other auto makers?
2. To what extent does your company involve in the development of new Mazda's models?

**IV. About overseas investment process**

1. If your company engages in FDI why did you prefer setting up operations overseas to exporting? If not indicate the reasons.
2. What are your major considerations between export and overseas production (if there are different considerations for different countries please mention).
3. Please give us an account of the process of foreign investment if your company engages in FDI? What are the steps do you follow before entering the foreign market?
4. What if you did not engage in overseas production?
5. What problem(s) did you face when you were preparing to invest in foreign countries?
6. How did your company form expectation about the new market in terms of customers and volume of production to be supplied?
7. To what degree did your company anticipate that the relationship with Mazda will continue in foreign subsidiaries?

**V. About overseas subsidiaries**

1. What amount of the output from your overseas subsidiaries is supplied in the host country?
2. Who are principal customers of your overseas subsidiaries?
3. What is the ownership structure of your overseas subsidiaries?

**Appendix 6 : Principal destination of outputs of overseas subsidiaries of Japanese auto parts manufactures by region.**

		Destination of the output		
		<i>Domestic</i>	<i>Export to</i>	
			<i>Japan</i>	<i>Other countries</i>
		Year	%	%
North America	2006	95.2	0.3	4.5
	2007	94.1	0.2	5.7
	2008	94.1	0.9	5
Europe	2006	73.3	3.8	23
	2007	55.6	0.7	43.7
	2008	58.6	0.6	40.8
Asia	2006	69.9	17	13.1
	2007	71.9	14.1	14
	2008	70.1	12.5	17.4
ASEAN	2006	67.6	14	18.4
	2007	64.5	14.7	20.8
	2008	60.4	13.5	26
CHINA	2006	65	26.8	8.2
	2007	77.4	16.7	5.9
	2008	78	13.4	8.6
Others	2006	78.2	0.1	21.8
	2007	69.7	0.4	30
	2008	60.7	0.5	38.8

**Source :** The survey of overseas business activities of auto parts manufacturers, JAPIA (2009, p.7) in Japanese.