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Special Essay:

Japan and Japanese Firms: Historical and Modern Lessons for International Business and Economic Development

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Introduction

As a young graduate student newly arrived in the US in the 1980s, it was hard, if not impossible, to avoid the US obsession with the phenomenon best described as 'rising Japan'. The media and the popular press churned out articles, documentaries and even Hollywood films that narrated the rising wave of Japanese acquisitions of major corporations, the occasionally unfair practices of Japanese firms that explained their growing market share in manufacturing, the seeming dependence on Japanese consumer goods on the imitation of US technologies (and an inability to be truly original), and the single-mindedness and discipline that were hallmarks of Japanese culture. Airport bookshops were crowded with books on the subject, divided into two groups. The first[1] were those that admired Japan's rapid economic rise (particularly the rapid expansion of its multinational enterprises) and sought to distil management and organizational lessons for US firms to emulate (Just-in-time, the Toyota way, total quality control). The second[2] highlighted the unfairness of Japan's tactics, the danger of Japan as the next economic hegemon, its closed domestic markets, the prejudicial use of transfer pricing, the exclusion of non-Japanese suppliers, the unfair HRM practices that favoured Japanese employees, exploited workers, and propagated a stronger gender bias. Not surprisingly, US policymaking was equally focused on how the Japanese juggernaut might best be tamed. Universities, firms, government and private think tanks, and

[1] The list is long – every intellectual worth their salt published at least one paper on Japan during the 1980s and 1990s. For illustrative purposes, see e.g., Shingo, S., & Dillon, A. P. (1989), Buckley, P. J., & Mirza, H. (1985), Ouchi, W. G., & Cuchi, W. G. (1981), Nonaka, I., & Johansson, J. K. (1985), Westney (1996).

[2] A few examples: The Enigma of Japanese Power" (1989) by Karel van Wolferen, William S. Dietrich's "In the Shadow of the Rising Sun" (1991), Daniel Burstein's "Yen! Japan's New Financial Empire and Its Threat to America" (1988), Robert Zielinski and Nigel Holloway's "Unequal Equities" (1991).

government agencies were all interested in sponsoring research that might shed greater light on how the 'Japanese Miracle' happened, and what the future might look like if these trends continued.

Indeed, such was the enthusiasm in academia that I (like many of my counterparts) sought to study Japanese MNEs for my PhD, only to be firmly discouraged by my supervisor (John Dunning). Having also contributed to this theme (e.g., Dunning 1986, Dunning & Cantwell, 1989), he assured me that this Nippon-mania would come to an end. In my stubbornness, we compromised – there is only a single chapter on Japan in my dissertation (Narula, 1996).

Dunning, was, of course, right. A Japan obsession was replaced by the mid-1990s with a NICs preoccupation, and later by a BRICs craze, which in the last decade, is now primarily a China mania.

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This wholesale neglect of the study of Japan and Japanese business and management practices during the last three decades is puzzling, because not only does Japan and Japanese MNEs continue to matter (despite their absence from the news, Japan is still one of the largest outward investors in the world. Nor are Japanese firms in decline: in terms of patenting activity, Japanese firms are second only to US firms). There is much to learn, not only from their contemporary activity, but from their historical actions.

This short research note is motivated by two observations. First, that the paranoia fuelled by Trump's China-US trade wars and the justifications for the need to curtail China's rise seem peculiarly similar to the debates and discussions in the 1980s and 1990s about Japan. This might seem tediously obvious to scholars who were studying Japan's economy three decades ago, however, those studying China's economic transformation (even at some of China's premier institutions) react with disbelief and surprise when I explain the parallels with Japan. I see no reason to delve into a comparison between China and Japan here, not least because their individual periods of rapid economic growth happened in two very different epochs and extremely disparate geo-political settings and domestic political circumstances. What is interesting is the outcome of the period of rapid catch-up, as China goes beyond low and medium tech industries towards greater innovation-intensive activities, just as Japan did in the 1970s. Not coincidentally, this is the period when Japanese economic actors started investing abroad systematically, developing appropriate ownership advantages and sophisticated management practices. There are lessons not just for China, but other emerging economies from the Japanese experience.

Second, there is a common (mistaken) belief amongst policymakers in less developed countries (and academics studying development) that one has to study the success of Japan since 1945, Korea since 1960, or China since 1980, to discover the policies and actions necessary to fast track economic catch-up. What this approach overlooks are that for all three countries in the periods in question, these countries had already achieved a threshold level of national absorptive capability, typified by a well-functioning administrative system, a high level of literacy at the primary, secondary and tertiary levels and other basic infrastructure (Criscuolo &

Narula, 2008). In addition, all three countries during the post WWII era had a fairly well-functioning interaction between the state and private enterprise (the blueprint for which has arguably been the Meiji period). Most less developed countries (and by this term I deliberately mean countries that are not emerging) do not meet these threshold levels of absorptive capability necessary for rapid growth. I feel that studying the Meiji restoration, the formation of a centralised Japanese political entity, and its deliberate actions to overcome its economic backwardness to be a much more useful avenue for study. In particular, I refer to the period from 1868 to 1912, during which time Japan had successfully moved away politically, technologically, socially, and economically from what was arguably a pre-capitalist, feudal society[3] (and by any definition severely under-developed) to a well-functioning capitalist and industrial economy.

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This paper is necessarily brief: its purpose is to engage with the academic community to highlight a number of research areas that would benefit from the careful study of Japan and Japanese MNEs. This paper consists of two parts. In the first section I review some key lessons for economic development from the Meiji era. In the second part, I remind the modern reader of the immense contribution that studies on Japanese business practices have made, not only to understanding the forces of development, but since the 1980s, to the conceptual and practical literature on management, international business, organizational structure and governance.

Misunderstanding Japan's Meiji era: Generic development lessons

It is a common misunderstanding that Japan's meteoric rise dates from the end of World War II. Its rapid growth is more accurately dated from the reforms and policies initially implemented during the Meiji era (1868-1912). This period was crucial in the building up of Japan's location advantages, and the rapidity of the reforms in this period underlined much of its subsequent growth.

The foundation of its location advantages is well documented in reports such as those produced by the Iwakura Mission, a high-level delegation of influential actors from Japan that travelled throughout the major western economies between 1871-1872, examining the causes and opportunities for development (Kunitake et al., 2009). Considerable effort was made to identify 'best practice' in more advanced countries, and then introduce new formal and informal institutions that were necessary to establish the key organizations, and to integrate them within society at large.

One of the clearest lessons from the Iwakura mission was the importance of infrastructure as a basis for economic development (p.457): 'The foundation of what the West regards as education…is imparting such knowledge as will ensure that the people may all acquire wealth or make a living without difficulty,

[3] It is still a matter of debate whether Japan in the Tokugawa era could be described as pre-capitalist (e.g., Cohen 2015; Crawcour, 1974).

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and that none is deficient in performing the duties required of a citizen.' This was clearly emphasised in the Meiji era's policies. Government education policy increased the stock of human capital and provided the basis for convergence with the west. Japan introduced modern compulsory education in 1872, and already by 1875, 54 percent of boys and 19 percent of girls of school age were attending schools. By the turn of the century, it may well have been on par on most European nations. Established in 1877, Tokyo Imperial University was producing 1,000 engineers every year by 1900 (Nicholas, 2011).

Infrastructure development also meant considerable investment not only in roads, but also railways, shipping and subsequently in public transportation. As the Iwakura mission noted,

'Another important factor which increases a nation's productivity and helps it become rich is transport. The ports and harbours of the West are filled with forests of masts; the streets of the cities are thronged with elegant carriages. Every one of these is a product of industry. The art of shipbuilding has developed into one of the leading scientific disciplines; bridge-building has become a principal branch of architecture. The ever increasing number of travellers and goods transported bring ever-greater profits.'

The Iwakura Mission seemed particularly taken by the state of European roads, and the importance of railways:

Western cities spare no expense in paving and maintaining their roads. .... A single horse can exert enough force to pull up to thirty tons. This may seem astonishing and incredible, but it is really quite simple. Wheels are very well made and roads are well surfaced. A load of one ton can be carried by twenty people or seven pack-horses. However, if it is hauled on well-made wheels, one healthy horse will be sufficient. If it is moved on rails, only eight pounds of pulling power is necessary.

Indeed, among the key industries targeted in its development plans were railroads and shipbuilding. From 1872 and 1907 the domestic rail network expanded from 29 to 7,152 kilometres and the number of locomotives from 10 to 1,924 (Tang, 2014). Shipbuilding was considered to be key for an island nation such as Japan, not only because of its benefits for increased commerce both within Japan and for trade, but also for defence. However, unlike Britain, where the industry depended upon other important developments in related industries, from steel to engines and instruments, Japan developed without them (Fukasaku, 2005). This made rapid growth in shipbuilding difficult in the absence of strong players in these complementary and supportive industries, and during the first half of the Meiji era, Japan depended greatly on imports. During the second part of the Meiji period, large firms such as Mitsubishi were encouraged to become conglomerates, expanding and branching out from shipbuilding to internal combustion engines, steel and so on. Nonetheless, a more pragmatic approach of relying on 'best practice' through technology imports (Fukasaku, 1995). These technologies were often adapted and improved to fit Japanese conditions, a practice that continued to shape the competitiveness of Japanese firms through much of the 20th century (Westney, 1986).

A key realisation was the importance of technology and innovation. Indeed, as the authors of the Iwakura mission noted,

'Industry advances as a result of both improved technical skills and new inventions. Technical skills, on the one hand, are acquired in the process of making profit. Inventions, on the other hand, are the foundation on which the making of profit rests. Consequently, some method is required to ensure that inventors are able to gain financially from their inventions as a reward for their investment of money and labour, and thus there will be no decline in the spirit of enterprise. This is why, in the West, exclusive sales licences are granted, which are called 'patents'. The people to whom such licences are awarded are classed as inventors, discoverers or improvers.'

The Meiji reforms were by no means painless (Crawcour, 1989). The state had to dispossess a number of economic actors and establish new ones in order to achieve a sound fiscal base sufficient not only for the purposes of new investment in infrastructure education and so forth, but also to maintain and address the needs of important interests groups. Given the greater competition from growing imports, there were also limits on its extant tax base, and therefore the resources to invest in building infrastructure that was largely absent at the beginning of the reform period. Thus, reforming institutions required creating a new tax base, land reforms, creating a convertible and common currency, a sound banking infrastructure, and financial instruments that allowed the state to borrow money. In addition to implementing a number of constitutional changes, it also provided the legal basis for a modern firm sector (Crawcour, 1989). During much of the Meiji era, government investment in infrastructure was at least as great a contribution to economic development as was direct government participation in industry. Indeed, it was during the Meiji era that the basis of a well-functioning interaction between the state and private enterprise developed, and was the inspiration for the system utilised by Korea, Taiwan, Singapore and China, to mention just a few, 50 years later.

"The Meiji reforms were by no means painless (Crawcour, 1989)."

The government initially engaged directly in industry, but these state-owned enterprises were poorly run and unsuccessful (Kobayashi, 1986). These were later sold to private entrepreneurs, implementing laws and policies to promote modernization and encourage these private firms to thrive, which formed the basis of the *Zaibatsu* (Hirschmeier, 1970). Although FDI in the

modern sense was a fairly small phenomenon, Japanese enterprises relied largely on arms-length technology transfers, even though this was not a consistently implemented policy over time. From 1868 to 1892, the central government spent 1.5 percent of its expenditures for foreign employees, also sending thousands abroad for training and education (Nafziger, 1985). The various ministries and the private sector employed many tens of thousands of expatriates as teachers, advisors and technical experts (Inukai, 1981).

While one of the other primary objectives of the Meiji Restoration was to restore Japan's economic independence, the policy of industrialisation required considerable 'cooperation' with foreign firms. While realising that they needed foreign technology, the government moved to restrict the entry of foreign firms into manufacturing, after an initial period of openness (Paprzycki & Fukao, 2008). The hope was to be able to reverse-engineer imported technologies, but this turned out not to be easy as hoped. By 1899 Japan systematically opened up to foreign direct investors. One of the first was Western Electric which established the Nippon Electric Company (NEC) in 1899 (Jones, 2005). Japan had the attraction of being a large market with high entry barriers to imports, and this encouraged MNEs a certain degree of investment and technology transfer. As Jones (2005) notes, US firms were especially keen, as, unlike the French and the British (as with other European colonial powers) they did not have the benefit of captive markets in the form of colonies.

This building up of the necessary organisations, both in the public and private sector, and the establishment (in part through trial and error) of the institutions by which these establishments interacted to achieve industrial and economic upgrading is, arguably, the greatest achievement of this era. Indeed, almost all subsequent developments and industrial strategies followed the blueprint established during this period.

My discussion here on the Meiji period is not intended to be exhaustive. I simply wish to underline that much is misunderstood of the meteoric rise of Japan from a peripheral economy to an economically powerful, developed country. From a policy perspective, there is much to enlighten development economists and International Business scholars alike. This need not be limited to less developed countries. Despite the stereotype that Japan's economy has been stagnant since the 1990s, there has been considerable evolution in the management and structure of Japanese firms and their innovation systems. Such developments represent a useful preview of challenges ahead for the more advanced emerging economies such as China and India as well as the new advanced economies, such as Korea.

International business theory and Japan studies: searching for new insights.

My brief discussion in the previous section points to an important and underdeveloped link to development and innovation policy. There are four key lessons that can be drawn from the Meiji period for policy makers in developing countries.

First, it is a reasonable to argue that the impetus or trigger from the Meiji era represented a major discontinuity or 'exogenous shock' that led to a systemic and widespread reforms. Society gets 'locked-in' to suboptimal routines, but due to institutional and systemic inertia, actors fail to adapt to the new circumstances unless an exogenous shock forces radical change (Narula, 2003). Nonetheless, even where other societies have experienced such a strong discontinuity (often in the form of a revolution), society returns to its previous equilibrium, even if it is considered sup-optimal, because systems of actors and the institutions that bind them together are resilient. Indeed, this has been observed in the case of the former centrally planned economies of Eastern Europe (for a discussion see Narula & Jormaneinen, 2008). Nonetheless, despite considerable political and socio-economic conflicts and challenges, Japan was able to establish a new socio-economic and political system which functioned coherently.

Second, the establishment (admittedly through trial and error) of a public-private partnership between state actors and private enterprise was key. Third, the necessity to innovate, and to do this within the rubric of a public-private lens, achieving rent-seeking for private firms while achieving larger, national targets and priorities lies at the heart of Japan's success. Indeed, the first careful study of this 'systems of innovation' phenomenon was published by Chris Freeman (1987) building on the case study of Japan.

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The systems of innovation literature has been hugely influential over the last four decades, modified and refined to the specific case of less developed countries in the 'systems of learning' approach (e.g., Narula, 2003; Lall & Pietrobelli, 2005; Criscuolo & Narula, 2008; Niosi, 2008; Pietrobelli & Rabelloti, 2011; Pietrobelli & Staritz, 2018). This discussion has considerable traction for policy, at the city, regional, national, and global level.

Fourth, the nature of these private-public interactions, and the modes of governance that belie traditional western practices that favour equity and ownership have become a prominent phenomenon, not only in developing countries, but elsewhere as well, in the industrialised world. The understanding of how networks functioned also came out of post-WWII era Japan. Considerable energy has been invested in understanding the complex inter and intra-firm networks that made up the *Keiretsu* (although to appreciate the keiretsu, one had to understand the *Zaibatsu* as their precursors), and how firms collaborated while also competing (Dyer, 1997; Teece, 1992; Hagedoorn, 1993). The idea of varieties of capitalism, and that there were multiple ways for a capitalist economy to function was no doubt inspired in part from these studies (Whitley, 1999; Hall & Soskice, 2001; Adler, 2001). All this has contributed to an ongoing lively debate on control versus ownership by MNEs, and the benefits of internalisation, governance of modes, and the role of non-equity agreements (Narula, et al., 2019). The literature on alliances and quasi-internalisation has, since the 1990s, moved away from a Japan focus, but what is particularly worthy of note is that the principles of inter-firm collaboration, open innovation, the importance of innovation systems and the learning economy (Freeman, 1987; Lundvall & Johnson, 1994), all draw greatly from these early studies of Japanese corporations and their behaviour.

It is a matter of record that the post WWII studies of japan have received considerably more attention in addressing management challenges (Ahmadjian & Shaede, 2015). Indeed, it is no exaggeration to say that the study of Japanese business and its MNEs has contributed immensely to the original pioneers in international business. 'Alliance capitalism' a term popularised in the 1990s by Gerlach (1992) can arguably be said to have pointed the direction for others to consider that hierarchical, full ownership and control were not always the most obvious choices (Dunning, 1995).

I certainly think that the growth of Japanese MNEs in the US and Europe led to a realisation, perhaps for the first time explicitly, that MNEs need not depend upon O advantages that consisted of 'hardware', in the sense of technology assets', or what we now refer to as asset-type ownership advantages or FSAs (Dunning, 1993). That a firm might be competitive even it possessed similar or even inferior technologies, where they were able to complement such weaknesses by superior intra-firm and intra-MNE organisational skills. That is, the importance of being an efficient MNE went beyond having the latest technologies, but being able to organise the use of these assets efficiently mattered, and most importantly, coordinating both internal and external embeddedness effectively – what we nowadays refer to as transaction and combinational FSAs (Narula & Verbeke, 2015).

The nature of the keiretsu has changed over the last few decades, although some aspects of their operations and their governance are resilient. What might the reorganization of Japanese economic activity portend for firms and countries that imitated Japanese MNEs? Many countries (notably, the Asian NICs, and to an extent, China) have imitated the public-private partnership in innovation and industrial policy, and it is also no accident that these countries were (and in some cases, still are) intricately integrated into the supply chains of Japanese firms. I believe that in many ways, the study of Japan and Japanese business provides important clues to the future organization of international business, both within and between countries, and provide a glimpse of the future.

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Special Essay:

Dynamic Marketing Capabilities for Emerging Market Development: Lessons from Japanese Multinationals

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Problems We Have Faced and Problems We Have Yet to Face

Developing and sustaining competitive positions in international markets have been the primary strategic focus of multinational corporations (MNCs). MNCs need to pursue economies of scale by transferring and exploiting home-based (available) resources and standardizing marketing strategies (such as the marketing mix). They likewise need to respond to each local market condition by simultaneously adapting their strategies. However, MNCs from developed nations may face more difficulties in utilizing their home-based, firm-specific advantages (FSAs) for value creation when they enter emerging markets, as a wider institutional gap exists in these cases (Peng, *et al*., 2008). We realize that emerging markets have gained and will continue to gain increasing attention in the world economy, simply because these markets have been garnering a higher portion of worldwide GDP based on their higher economic growth. The major MNCs from developed nations such as Japan, the United States, and Western Europe have been struggling with establishing and maintaining competitive advantages in emerging markets (i.e., China in the 1990s, Southeast Asia in the 2000s, and Africa in the 2010s). This is expected to continue being the most critical global marketing issue unless our globe turns entirely flat. In this special essay, as an international marketing scholar, I will share with you some significant lessons drawn from Japanese MNCs that demonstrate how they are able to surmount these difficulties in emerging market developments by utilizing their home-based resource bundle. Of course, these strategies did not succeed right away.

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Source of Competitive Advantage of MNCs from Developed Nations

Rugman & Verbeke (2003) identified a problem with the internalization theory from the perspective of strategic management (Narula & Verbeke, 2015). This problem pertains to the assumption that an MNC's core FSAs normally originate from the parent company in the home country market and that these FSAs are usually location-bound. To modify this assumption, they proposed classifying FSAs into two types: non-location-bound FSAs (NLB-FSAs) and location-bound FSAs (LB-FSAs). Although NLB-FSAs are the primary transfers to local markets because of their comparative advantages over local competitors, the value of transferred FSAs may be very limited. Therefore, after initial market entry using NLB-FSA transfers, an MNC may invest in developing LB-FSAs in foreign markets, leading to local responsiveness and complementing the transferred NLB-FSAs.

Despite the benefits of LB-FSA development, MNCs have significant incentives to share knowledge and resource bases (home-based FSAs) between home and subsidiaries to minimize communication costs and achieve economies of scope. In transaction cost economics, there exists an assumption in communication cost minimization within MNCs that can play a substantial role in FSA selection, transfer, and utilization management. The creation of much of the value in a local market largely relies on an MNC's ability to successfully deploy its existing home-based FSAs to the specific circumstances of emerging markets. While FSAs may still be the functional key in creating value for local customers, few studies have investigated the dynamic process of sensing and selecting home-based FSAs for creating value and building further competitiveness in evolving emerging market development.

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Dynamic Marketing Capabilities for Home-based FSA Selection

Dynamic marketing capabilities (e.g. market-sensing, planning, and implementation capabilities) characterize the strategic marketing process of organizations, which involves reconfiguring resources and enhancing current marketing capabilities (Morgan, et al., 2018). Dynamic (or higher-level) marketing capabilities focus on learning from and adapting to market conditions in order to gain better fitness of firms' resource bundles in relation to changing markets. Marketing capabilities are defined as a firm's ability to use available resources to perform marketing tasks to achieve desired outcomes (Morgan, et al., 2018). These are a vital mix of skills and knowledge, embedded in the organizational process, and largely contribute to developing and implementing strategies throughout the marketing process. In changing international marketplaces (e.g. emerging markets), sources of firms' competitive advantages are likely to be found in different places at different times; therefore, firms with resource bundles will never be able to identify the ultimate source of their competitive advantage because of the infinite regression problem. Hence, it could be a challenge for MNCs from developed nations to accurately determine and predict the main source(s) of their competitive advantage at very different locations in evolving emerging markets. The issue here is whether we can confirm the extended value that home-based resources actually generate before or soon after their transfer and the actual practices in emerging markets. The only effective way to counter such uncertainties in international markets may be through experimenting with new approaches or learning through institutional entrepreneurship (Cantwell, et al., 2010: 571).

While much attention has been given to studies on marketing capabilities, more studies are needed to comprehend the dynamics of international marketing (Morgan, et al., 2018). In more globally mature firms, the focus is more on maintaining the benefits of global scale or establishing repeatable processes across international markets. The redeployment or transfer of home-based FSAs, therefore, should be a critical issue in the strategic planning of MNCs. There is a high demand, both in the academia and in actual business practice, for the exploration of the dynamic process of how MNCs—in the relationship between headquarters and subsidiaries—sense and select the value-achieving, home-based resource bundle to obtain the desired performance in emerging markets.

"Summarizing our arguments, the issue facing MNCs is whether initially selected FSAs are effective in creating value for local customers in terms of costs as well as maintaining their competitive advantage."

Summarizing our arguments, the issue facing MNCs is whether initially selected FSAs are effective in creating value for local customers in terms of costs as well as maintaining their competitive advantage. When home-based FSA leveraging is successful, MNCs seem to create value, minimize costs, and simultaneously avoid uncertainty in building a competitive advantage in emerging markets. The questions to be asked here are the following: How do MNCs sense, recognize, and select the customer value-achievable FSAs at the initial market-entry stage? What types of dynamic processes are involved in deploying marketing capabilities that enable an MNC to achieve successful home-based FSA selection and value creation in emerging markets? To answer these questions, successful FSA selection practices must be examined.

Practices of Japanese MNCs: Shiseido and Uniqlo

We conducted a comparative case study on the dynamic marketing capabilities in FSA selection of several Japanese MNCs. In this essay, we analyze two examples in the consumer business, Shiseido and Uniqlo, as they entered the Chinese market. Shiseido is Japan's largest cosmetics company, ranked fourth in global sales volume in 2019. Shiseido entered the Chinese market in 1981 as one of the pioneers among Western cosmetic multinationals; however, they have been struggling to achieve the top market position in recent years, especially since 1994 when they established concrete business bases in China. Uniqlo, founded in 1984, is a casual apparel brand operated by Fast Retailing Co., Ltd. Uniqlo; it initially operated retail stores, but has transformed its business operation into an SPA (specialty store private label apparel), selling its manufactured label in its own stores. The company has been rapidly expanding its international business since 2007. In 2018, both its number of stores and annual sales volume in international operations exceeded the domestic business, with 1,407 international stores compared to 827 domestic stores, and ¥89.6 billion of annual international sales against ¥86.7 billion in annual domestic sales. It is one of the fastest growing Japanese companies in the past 20 years.

Our case studies revealed two main findings on the dynamic marketing capabilities of MNCs. The first finding refers to the organizational mechanism of a two-stage selection process of value-achievable, home-based FSAs along with

Chinese market entry. Our data highlight that FSA selections were directed at value prediction in the initial stage and then were gradually shifted to actual value creation in subsequent stages. This indicates that MNCs tend to avoid the immediate creation of new location-bound FSAs in host markets to minimize communication costs between headquarters and subsidiaries. In Shiseido's Chinese market entry and expansion, the firm initially transferred its home-based resources relative to channel-based product brand development capability through department store channel expansion. This was the home-based resource that Shiseido had accumulated over a long period in Japan by launching new product brands for different target customer groups and for different sales outlets. In Japan, Shiseido had historically developed its business by targeting a wider range of customers, from luxury brands sold at department stores to affordable products for teenagers at convenience and drug stores. When establishing its business operations in China, the company launched the originally developed "Aupres" brand in 1994, which targeted upper-middle class Chinese women. This original product was based on a Japanese formulation technology involving basic safety tests on its ingredients. It was initially sold only in luxury department stores in major cities, and subsequently distributed throughout the country. Following the success of "Aupres" and the quick expansion of its department store network, in 2006, the locally produced "Urara" brand was launched for the cosmetic-store market (known as voluntary chain stores). Within the next three years, the network grew rapidly to 2,400 independent outlets. In the early 1990s, the concept of customer service was not well understood in China, including by the Chinese beauty consultants (BCs) managing the sales counters in luxury department stores. A sense of hospitality and the desire to serve customers are crucial qualities for Shiseido's BCs. The effective training of Chinese BCs on these customer service skills, played an important role in Aupres' success. The newly acquired skills would enable BCs to communicate with and entice first-time customers who did not have previous exposure to luxury cosmetics.

"Our data highlight that FSA selections were directed at value prediction in the initial stage and then were gradually shifted to actual value creation in subsequent stages. "

Shiseido was able to re-utilize the transferred home-based FSAs—in this case, the improved customer care skills of its beauty consultants (BCs)—along with additional investments in the development of new distribution channels for China's middle-class market. In the early stages, Shiseido selected its home-based FSAs through value output prediction for its department store network, taking into consideration the expansion of the middle class market and also the effort invested in training BCs. These investments enhanced the initially transferred FSAs (BCs' service skills), giving Shiseido the ability to create customer value.

In Shiseido's case, we ascertain that a series of home-based resource transfers involved value prediction and cost minimization in the early entry stage. Although the effect of home-based FSAs on value creation was uncertain, Shiseido successfully managed to select and transfer its excellent product brand

development and BCs' service capabilities from its headquarter to its China operations through a two-stage practice. It is important to note that Shiseido did not confirm the achievable value of its initially selected resources, they identified that great value was generated in the Chinese market only after learning to adapt to the competition through the expansion of department store channels.

In Uniqlo's initial entry stage, they were struggling to provide superior value to local customers by leveraging home-based resources. The company realized that its strategy of offering high-quality products at the lowest market price, based on capabilities accumulated in the domestic market, was not effective for creating value in relation to customers in China. Subsequently, the company came to realize that Uniqlo's brand needed a new position in emerging markets. Therefore, in the second stage, Uniqlo decided to maintain its brand position with a focus on its in-store service capability and product quality characteristics. It determined that the brand should not be positioned as low-priced with affordable product quality; instead, it shifted direction to position itself as a high-quality brand in China and other emerging markets in Southeast Asia. Uniqlo focused on sophisticated in-store displays and customer service and enhanced its brand recognition. It is important to note that Uniqlo could not fully predict which home-based resources might contribute to value creation in the Chinese market.

Resource repositioning as dynamic marketing capabilities

The second finding is related to pursuing conditions in which home-based resources translate into value-achieving FSAs (NLB-FSA). NLB-FSAs can explain the comparative advantage condition in which differences in economic productivity make it desirable for firms to specialize in products and services that reflect their superior capabilities (Rugman, 1981; Kogut and Zander, 1993). On the one hand, the question we should explore is why does a certain home-based resource become a value-achieving FSA in the host market? On the other hand, why is it not possible to utilize other home-based resources as FSAs?

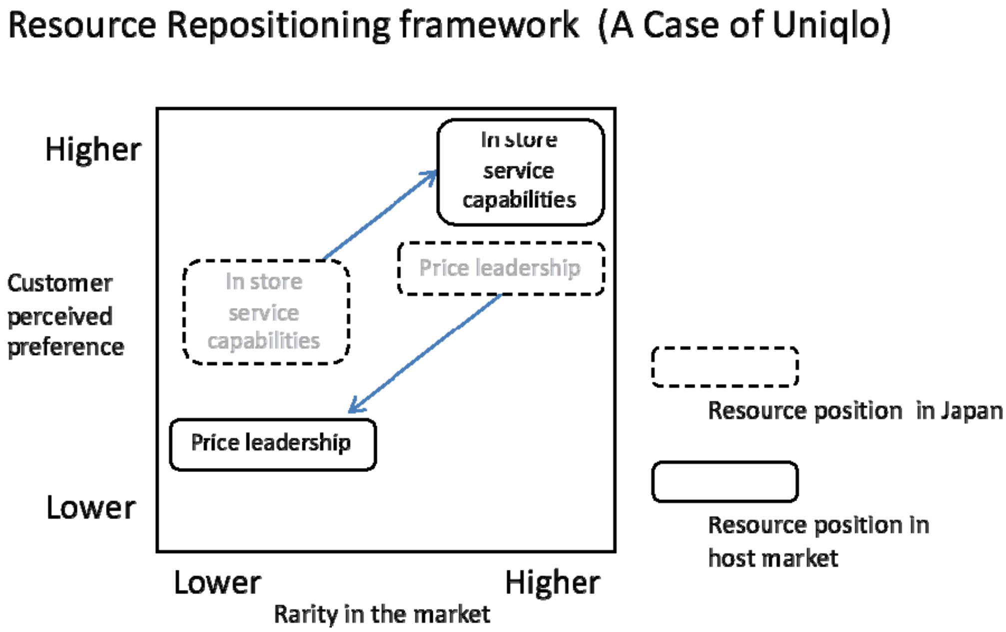
"Our case studies show that there are dynamic competitive market effects on resource reconfiguration in emerging market developments."

Our case studies show that there are dynamic competitive market effects on resource reconfiguration in emerging market developments. It clarifies which conditions enable home-based resources to become NLB-FSAs in host markets and the marketing capabilities that MNCs must possess for successfully implementing home-based FSA selection and transfer for rapid local market development. We identified some of the essential conditions for transforming home-based resources into NLB-FSAs. Figure 1 illustrates the market positions of home-based resources in different locations. For instance, in the case of Uniqlo, in-store service capability in the Japanese market was recognized as medium in customer perceived preferences but not rare because the in-store service quality that Uniqlo developed just reached the average level and was unable to contribute largely to its differentiation. However, in China, in-store

> *"In Figure 1, we depict a "resource repositioning framework" to illustrate the process through which the market position of resources developed in the home country market transform their positions in host markets."*

service capabilities are seen as both high in customer perceived preferences and rare in the markets. We observed that customer preference for Uniqlo's in-store service capabilities were even higher in China than in Japan at the entry stage. This is because the high standard of customer service quality commonly found in Japan is hard to find or replicate in emerging markets. After its early struggle, Uniqlo realized its in-store service capabilities could be value-achievable NLB-FSAs that can be selected and immediately transferred to its host markets.

Figure 1.



On the other hand, Uniqlo's market position with regard to price leadership, that functioned as the firm's most critical source of competitive advantage in the domestic market, was not utilized in China at the initial entry stage. This is because many of its competitors in China offered even lower prices with affordable quality products. In addition, a price leadership strategy does not always help achieve the company's goal of establishing itself as a premium brand in international markets. For instance, in China, Uniqlo's products are priced higher than many local products; therefore, Uniqlo is seen as a premium brand by upper-middle class consumers. Thus, price leadership is neither perceived as preferred by customers nor as a rare resource in the foreign markets, especially in Asian countries. Therefore, Uniqlo's price leadership was not utilized as an NLB-FSA.

In Shiseido's case, we likewise observed that resources and bundles of resources are tailored to specific market conditions, including customer perceived preferences and competitor skills. Moreover, we observed that home-based resources were repositioned differently in China in terms of customer perceived preferences and rarity. We found that both a channel-based product

brand development capability and a BC's service capability at sales counters have been re-positioned as higher in rarity in the Chinese market than in Japan. Especially for middle-mass market development, customer service capability was critical in building Shiseido's brand image. Advanced formulation technologies such as anti-aging and skin renewal, were not appealing to the Chinese market at the initial entry stage despite the company's well established and advanced R&D capabilities as a domestic market leader in skincare products.

In the home-based FSA selection process, only those resources that have both high customer perceived preference and rarity in the market can be chosen as NLB-FSAs in creating and delivering exceptional value to local customers. Customer perceived preference is defined as the prospective customer's evaluation of all the benefits and costs of an offering (Zubac, *et al*. 2010). The preference for a firm's resources is assessed and perceived by customers in the market, and firms assess the customer preference level of its resources in comparison to those of other internal resources. The rarity of resources is determined by the availability of similar resources in the market; changes in market conditions (e.g. number and size of competitors or supply sources) affect rarity. Therefore, a resource's ability to contribute to firm performance depends on a number of contextual factors, including whether or not such resources enable a firm to tailor its offerings for the specific market (Barney, 1991; Zubac, et al., 2010). Strategic management literature points out that environmental conditions assist in isolating the resource attributes that exploit opportunities and/or neutralize threats, and thus, specify which resources enable firms to gain a competitive advantage in the market (Barney, 1991; Day, 2011).

In Figure 1, we depict a "resource repositioning framework" to illustrate the process through which the market position of resources developed in the home country market transform their positions in host markets. A bundle of home-based resources has been developed over time to suit a company's unique domestic market environment and competition. It has been functioning as a key success factor for achieving and delivering a desired value to customers in the domestic market. In emerging market development, the bundle of resources should first be unbundled in terms of market position as well as customer preference and rarity. Thereafter, a successful MNC can utilize its home-based resources to find a new market position for each home-based resource in the host market using two evaluation factors: "degree of customer perceived preference" and "degree of rarity." A resource that is positioned in a right-upper quadrant in the resource repositioning framework can be defined as an NLB-FSA that is high in both customer perceived preference and rarity in the host market. An MNC that is able to determine which home-based resource can be repositioned in a right-upper quadrant as an NLB-FSA has a better chance of successfully gaining a competitive advantage in emerging market.

"Our findings clearly show that an international marketer needs to fully exploit a repositioning framework as an analytical lens for emerging market strategy planning and implementation to create a competitive advantage over local competitors"

Lessons from Japanese MNCs

In this special essay, the contents of dynamic marketing capabilities of

MNCs are identified through process analysis of two success cases of Japanese MNCs entering Chinese market. That is, they are a two-stage FSA selection process and a resource repositioning framework. Previous studies in international business suggest that the re-combination of the home-based NLB-FSAs and the newly developed LB-FSAs in the local market is effective for gaining a competitive advantage in the local market. From a long-term perspective, a newly developed LB-FSA will contribute significantly to ensuring competitive advantage. However, our case studies show that in the initial stages of entry, priority is given to the utilization of home-based resources; the mechanism for exposing critical home-based resources that create a competitive advantage in the local market should be examined. Our findings clearly show that an international marketer needs to fully exploit a repositioning framework as an analytical lens for emerging market strategy planning and implementation to create a competitive advantage over local competitors. A resource repositioning framework helps international marketing managers in deploying critical, dynamic marketing capabilities of MNCs for effective and efficient emerging market developments.

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