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Do Japanese use Japanese-European JVs as Trojan horses in foreign markets?

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1. Research background

(1) Strategic management studies

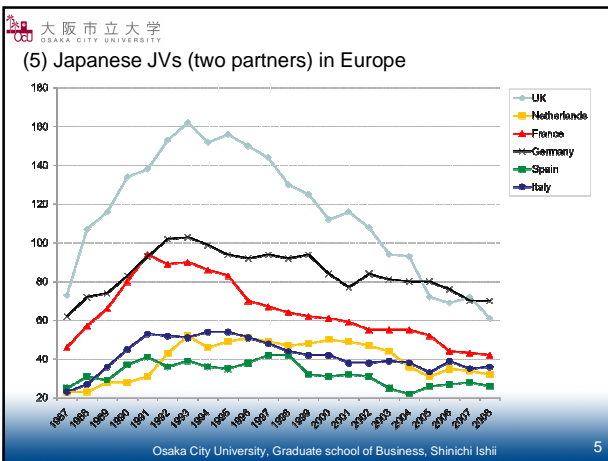
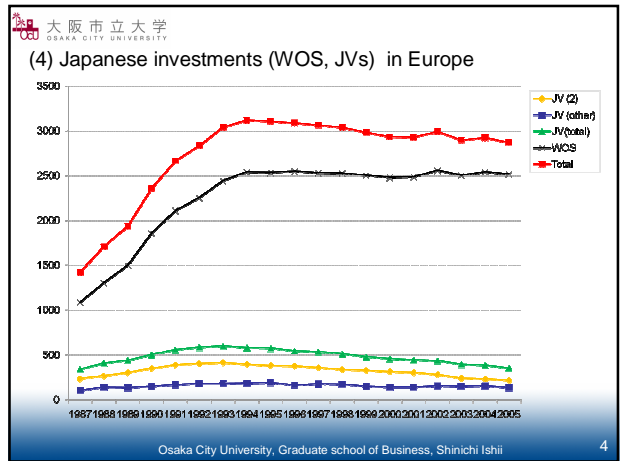
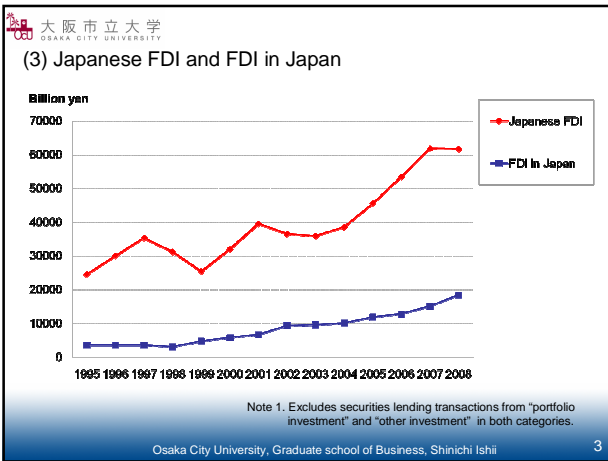
- Research focus of competitive strategy shifted: Short term (Product) → Long term (Organizational capability)
- What is the source of (Japanese) organization capability ?
- How to construct the organization capability?


(2) Inter-organizational management studies

- T/C and competitive strategy theories
- Inter-organizational learning, Inter partner learning competition

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2. What is Trojan Horse Hypothesis (THH) ?

- Reich&Mankin(1986), Pucik(1988a), Pucik (1988b), Hamel et al. (1989) Hamel(1991) presented pessimistic scenarios for Western firms to do JVs with Japanese firms (J-firms)
- J-firms enter the castle(market) of Western partners and appropriate knowledge transferred to JV from Western partners
- J-firms end up JVs soon after they learn from Western partners and use transferred knowledge to neutralize Western partners' advantage (castle is attacked from within)



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Japanese JV behavior in THH

(1) Learning behavior
-Japanese firms possess better learning factors (learning intent, transparency, receptivity) than Western firms

(2) Partnership behavior (continuation/termination of JV, inter-partner relationship management)
-After learning from partners, J-firms end up JVs by acquiring them or exiting (sell-off /liquidation) from them
-At the continuing JVs, J-firms increase bargaining power against Western partners and the JVs end up soon because of inter-partner conflict caused by J-firms to request increasing their JV profit share

-However, other research (SCM) found that Japanese firms have long-term partnership: CS view
→ Is THH supported at Japanese-Western JVs ?

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Partnership behavior

	Short term oriented (Bad partner)	Long term oriented (Good partner)
Good learner	Japanese in THH	Japanese SCM (CS)
Bad learner	Western in THH	

Learning behavior

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Research Questions

(1) Does the majority of Japanese firms follow THH strategy at JVs?
(2) Is the number of Japanese firms that follow THH strategy at JVs larger than that of Western firms?

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Categorization of Japanese-European JV strategy

	Market of JV	
	JP	EU
JP	A) Japanese JV strategy in home market	B) Japanese JV strategy in foreign market H1, H2 and H3
EU	C) European JV strategy in foreign market	D) European JV strategy in home market

Focal Firm's nationality / regionality

H4

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Japanese THH partnership scenarios

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    graph TD
      S1[Japanese learns from EU partner] -- S1 --> S1_1[Japanese increases its bargaining power]
      S1 -- S2 --> S1_2[Japanese requests to increase share of JV profit]
      S1 -- S3 --> S1_3[JV asset is useful]
      S1 -- S3 --> S1_4[JV asset is not useful]
      S1_1 --> S1_1_1[Japanese persuades EU partner to sell off JV stake]
      S1_1_1 --> S1_1_1_1[Japanese buys out JV stake from EU partner]
      S1_2 --> S1_2_1[Inter-partner conflict increases]
      S1_2_1 --> S1_2_1_1[Japanese sells off JV stake to EU partner or to other firm]
      S1_3 --> S1_3_1[JV liquidation]
      S1_4 --> S1_4_1[JV liquidation]
  
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3. Operational Hypotheses

H1: THH is supported if the number of cases of Japanese-European JVs in Europe where Japanese firms buy full JV ownership from their European partners, where the JV is liquidated, or where Japanese firms sell-off their stakes to their European partners or to other firms, is higher than the number of JVs where Japanese firms remain as JV partners.

H1: Buy-out+Liqui.+Sell-off > Unchan.+Increased+Decreased

We consider all THH dissolving patterns(B-o, S-o or Liq) equally because Japanese can expropriate partner's knowledge into their organization by learning at the JV.

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H2: THH is supported if the number of Japanese-European JVs in Europe where Japanese firms buy full JV ownership from their European partners is higher than the number of JVs where the Japanese remain JV partners.

H2: Buy-out > Unchanged+Increased+Decreased

We consider B-o is prioritized dissolving pattern than S-o or Unchanged/Increased/Decreased. Because JV, with transferred knowledge by them, may become a competitor for them, as long as JV is not acquired by the Japanese. In addition, Japanese can utilize knowledge of EU partner which was transferred to JV by B-o.

H3: THH is supported if the number of Japanese-European JVs in Europe, where Japanese partners buy full JV ownership from their European partners or where the JV is liquidated, is higher than the number of JVs where Japanese partners remain JV partners.

H3: Buy-out+Liquid. > Unchanged+Increased+Decreased

We consider B-o or Liq is prioritized dissolving pattern by Japanese than S-o or Unchanged/Increased/Decreased. Because JV, with transferred knowledge by them, may become a competitor for them, as long as JV is not acquired by the Japanese or the JV is not liquidated.

H4: THH is supported if the relative frequency of Japanese-European JVs in Europe, where Japanese partners buy full JV stakes from their European partners, sell off JV stakes to their European partners or to other firms, or liquidate the JV is higher than that of Japanese-European JVs in Japan, where European partners buy the full JV stakes from Japanese partners, sell-off their JV stakes to Japanese partners or to other firms, or liquidate them

H4: J THH rate:(B-o+Liq+S-o)/Total > EU THH rate:(B-o+Liq+S-o)/Total

4. Methods

-We developed a list of Japanese manufacturers' direct investment in the EU from "Directory of Japanese Companies Abroad" by Toyo-Keizai-Shinpo-sha. DJCA contains Japanese FDI data, The publisher also provides investment data of foreign firms in Japan.

-Other data source: We contacted JVs, parent firms, suppliers and customers, JETRO, library, luring FDI institutions, Embassies, Chamber of commerce, published information (LexisNexis/Nikkei-telecom, newspapers, annual security reports, magazines)

-Measurement: Dissolution of JV for 9 years (1987-96). 6 years is a JV transformation peak (Kogut, 1988) and more than half of Japanese JVs are dissolved 9 yrs after foundation (Takeda, 1996). Therefore, it seems that 9 yrs is a minimum term to learn from JV partner (we measure more than 9yrs after JV foundation),

JV data Criterion

- JV between one Japanese parent and one European parent in Europe as of July 1987
- DJCA's data is based on questionnaire
- JV with manufacturing activity (internal and external in Europe) and with 10 employees (one exception of N/A with factory) or more: food, textiles, paper, chemistry, pharmaceuticals, petroleum/coal, plastic, rubber, glass, steel, non-ferrous metals, metals, machinery, electrical equipment, automotive, non-automotive transport machinery, precision measuring equipment, others
- Each parent invests 20-80% JV share (for data maximizing and definition of Toyo Keizai's JV data in Japan)
- Individual (person) parent is deleted if he/she is not counted as a part of JV parent firm because we focus on inter-organizational learning

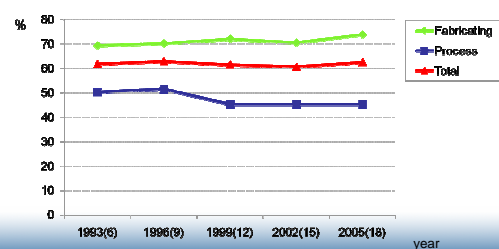
JV data outline

-38 Japanese-EU JVs in Europe

-Foundation (ave.):1980 (pro.:1979, fab.:1980) (N/A=2)

-N of employee (ave.): 273.5 (pro.: 303.5, fab.: 253) (N/A=1)

-Japanese initial share (ave.): 48.3% (pro.:47.9%, fab.:48.5%)



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	Nor	Sw	UK	Ire	Net	Bel	Fra	Ger	Por	Spa	Ita	Total
Food	0	0	0	0	0	0	1	0	0	0	0	1
textiles	0	0	0	0	0	0	1	0	0	0	1	2
chemical	1	0	1	0	2	0	2	1	0	1	0	8
pharmaceutics	0	0	0	0	0	0	0	1	0	1	0	2
glass	0	0	0	1	0	0	1	0	0	0	0	2
Process industry	1	0	1	1	2	0	5	2	0	2	1	15
machinery	0	1	0	0	0	0	1	3	0	0	0	5
electrical equipment	0	0	1	0	0	1	3	2	0	3	0	10
automotive	0	0	0	0	1	0	1	1	1	2	0	6
precision measuring equipment	0	0	0	0	0	0	0	1	0	0	1	2
Fabricating industry TOTAL	0	1	1	0	1	1	5	7	1	5	1	23
TOTAL	1	1	2	1	3	1	10	9	1	7	2	38

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Change in Japanese stake in J-EU JVs in EU

	Zero (0-5)	Minor (5.1-49.9)	50%	Major (50.1-94.9)	95-100%	Total (1987)
Minor (20-49)	4	4	0	2	4	14 (37%)
50%	2	0	7	1	3	13 (34%)
Major (51-80)	0	0	0	5	6	11 (29%)
Total (1996)	6 (16%)	4 (11%)	7 (18%)	8 (21%)	13 (34%)	38

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Change in European stake in J-EU JVs in Japan

	Zero (0-5)	Minor (5.1-49.9)	50%	Major (50.1-94.9)	95-100%	Total (1987)
Minor (20-49)	6	10	0	1	0	17 (22%)
50%	12	1	28	4	3	48 (63%)
Major (51-80)	1	0	2	4	4	11 (14%)
Total (1996)	19 (25%)	11 (14%)	30 (39%)	9 (12%)	7 (7%)	76

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Table 3. Change in ownership levels of J-firms in J-EU JVs in EU and EU firms in EU-J JVs in Japan (1987-96)

	N	
	Japanese	EU
Focal partner's stake increased to 95—100%	13	8
Stake bought from original local partner	10	8
Focal partner acquired original local partner	3	0
Stake bought from firm other than original local partner	0	0
Focal partner's stake increased but not to 95—100%	7	5
Focal partner's stake decreased but not to zero	1	3
Focal partner's stake became zero	6	19
Stake sold to original local partner	1	10
Stake sold to firms other than original local partner	3	1
Focal partner was acquired by original local partner	0	0
Focal partner was acquired by firm other than original local partner	0	3
Joint venture was liquidated or went bankrupt	3	5
Focal partner's stake unchanged	11	41
Total A (excluded case of partner acquired original partner or being acquired by original partner or by firm other than original partner)	35	73
Total B (all samples)	38	76

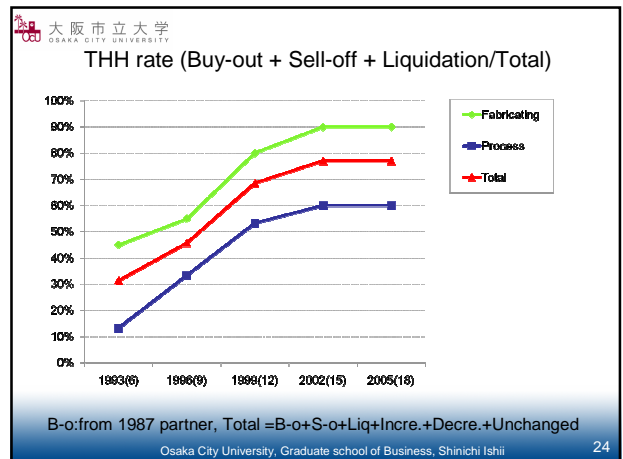
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Table 4. Results of data analysis for operational hypotheses

	Elements	Figures	Results
H1	B-o + S-o + Liq > Continue	16 < 19	Not supported
H2	B-o > Continue	10 < 19	Not supported
H3	B-o + Liq > Continue	13 < 19	Not supported
H4	J THH rate > EU THH rate	45.7% (16/35) > 32.9% (24/73)	Supported (10% significant)

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Summary of findings

- The majority of Japanese firms took less THH behavior and tend to continue JV ownership
- Japanese took more THH behavior than European do at JVs in foreign market
- Japanese took more THH behavior in fabricating industry (55%) than in process industry (33%)
- Most popular JV dissolution pattern was Japanese buy-out

6. Discussion & Next step

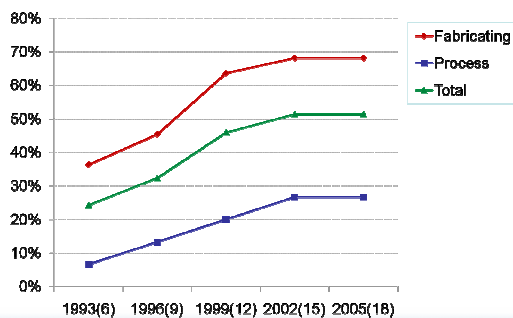
1. To confirm our findings (H1,H2,H3 are not supported, H4 is supported) Why? → Different market/partner combination and comparative studies.
2. Can we treat increase/decrease as JV continuation? Are they JV dissolution start or JV governance changes to adapt its environment?
→Case studies: Are JV dissolutions follow JV share change or caused by Japanese learning completion?, What are alternative scenarios (market/partner /industry/other forms)?
3. Insufficient understanding of THH proponents for Japanese JV behavior: under-evaluated network based capability: Japanese are good learners and good partners?
4. THH studies based on JV cases: (a) Biased: accessibility and big loser's voice, Hamel focused on two J-UK JVs, (b) Purposed for theory construction not generalization

Thank you very much

Table 5. Results of data analysis for operational hypotheses

	Elements	Fig. (Fab)	Res. (Fab)	Fig. (Pro)	Res. (Pro)
H1	B-o+S-o+Liq>Conti	11>9	Supported	5<10	Not supported
H2	B-o>Conti	8<9	Not supported	2<10	Not supported
H3	B-o+Liq>Continue	9=9	Not supported(?)	4<10	Not supported
H4	J THH rate > EU THH rate	55%(11/20) >47%(8/17)	Supported (Not significant)	33.3%(5/15) >28.3%(15/53)	Supported(Not significant)

Buy-out rate (Buy-out/Total)



B-o:from 1987 partner, Total =B-o+S-o+Liq+Incre.+Decre.+Unchanged

What is Trojan Horse? (from Wikipedia)

- A giant wooden horse device made by Greeks to attack Trojans (Virgil's Latin epic poem *The Aeneid*)
- Trojans accepted the horse (with hiding Greek soldiers inside) as a gift, and brought it into its castle wall
- While Trojans were celebrating victory of war, Greek soldiers came out of the horse and occupied
- The term is used to express "sneak attack" or "apparent advantage that is actually trick"



Japanese THH partnership scenarios

