The Paradox of Foreignness: Norm-breaking MNEs in The Japanese Banking Sector

Jesper Edman

Akademisk Avhandling

The Paradox of Foreignness

Norm-Breaking MNEs in the Japanese Banking Industry
Address: Holländargatan 32, P.O. Box 6501, SE-113 83 Stockholm, Sweden.
Telephone: +46 (0)8 736 9500; Fax: +46 (0)8 31 99 27; E-mail: kerstin.wedin@hhs.se

- Founded in 1975
- Is a research institute at the Stockholm School of Economics
- Conducts theoretical and empirical research with emphasis on International Business
- Arranges weekly research seminars, annual workshops and symposia
- Publishes its research findings and results in a series of working papers, in refereed journals and books
- Is in charge of graduate courses in International Business at the Stockholm School of Economics
- Is in charge of the International Graduate Program (IGP) at the Stockholm School of Economics

The IIB Board of Directors

Dr. Karl-Olof Hammarkvist, Chairman
Vice President
Director of the M.Sc. Program at the Stockholm School of Economics, and Adjunct Professor at the Department of Marketing and Strategy at SSE

Mr. Staffan Bohman
Former President and CEO Sapa AB

Dr. Magnus Blomström
Professor of Economics at the Stockholm School of Economics and the European Institute for Japanese Studies at SSE

Ms. Inga-Lill Carlberg
Head of Private Banking Sweden at Nordea

Mr. Yves L. Doz, Ph.D.
Professor of Business Policy at INSEAD, Fontainebleau, France

Mr. Henry W. Lanc, Ph.D.
Professor of International Business at the Northeastern University, Boston, USA

Dr. Lars Otterbeck
Associate Professor, former President and CEO Alecta

Mr. Joakim Rosengren
President and CEO DeLaval International AB

Dr. h.c. Hans Rausing
Honorary Member of the Board, Former Chairman of the Board Tetra Laval Group

Dr. Lars Ågren
Acting Director of the Institute of International Business at the Stockholm School of Economics

More information: www.hhs.se/IIB
Further information about current research at the institute and its publications will be mailed on request.
THE PARADOX OF FOREIGNNESS

Jesper Edman
For Christine
Preface

This doctoral dissertation was written while Jesper Edman was a Ph.D. candidate at the Institute of International Business (IIB). The research was generously supported by the Swedish School of Advanced Asia-Pacific Studies (SSAAPS), the Tom Hedelius Foundation and Sparbankstiftelsernas Förvaltnings AB. This support is gratefully acknowledged.

The IIB would also like to acknowledge and thank Professor Jiatao Li at the Department of Management of Organizations, Hong Kong University of Science and Technology, as well as Professors Hirotaka Takeuchi and Christina Ahmadjian at the Graduate School of International Corporate Strategy (ICS), Hitotsubashi University, for generously hosting and supporting Jesper during his research.

The preparation of the thesis was made possible due to the kind cooperation of loan officers, managers and financial professionals at various banks and securities companies in Japan, Hong Kong and Sweden who graciously shared both their time and experience.

IIB would like to thank all contributors for their generosity and openness.

Lars Ågren
Acting Director, Institute of International Business
Stockholm School of Economics
Acknowledgements

Writing a dissertation is a one-person job; supporting a Ph.D. student academically, financially, emotionally, and occasionally physically when he breaks his leg rests on the shoulders of dedicated colleagues, friends, family, and philanthropists. In short, I could not have done this without the following people:

First and foremost, Patrick Regnér exemplified the perfect combination of an encouraging advisor and demanding supervisor throughout the dissertation process. As committee chair, he carefully read countless drafts, enthusiastically backed good ideas, challenged bad ones, and unswervingly provided the support, encouragement, and strict deadlines that are crucial for getting a successful dissertation done. Thank you, Patrick, for going above and beyond the call of duty.

I am also deeply indebted to the excellent members of my committee who generously shared of their time and expertise. Stefan Jonsson served as an early role model and supporter at IIB, spoon-fed me institutional theory, steadily answered various inane e-mail questions, and consistently encouraged me to refine and develop my work. Eleanor Westney expressed contagious enthusiasm and support from the very start of the project, provided detailed and insightful thoughts on both Japan and IB theory, and gladly got up at early morning hours to take part in committee teleconferences and breakfast meetings. Ari Kokko offered feedback and support throughout my time at SSE, encouraged the focus on Japan and provided a crucial economics-perspective that hopefully served to strengthen and deepen the final dissertation work. Thank you Stefan, Eleanor, and Ari.

I have been fortunate enough to spend the formative years of my doctoral studies surrounded by an exceptionally unique and eclectic collection of thinkers known collectively as the Institute of International Business. The ideas that form the basis of this work would not have emerged without the countless seminars, informal discussions and late-night Rucklet parties that make up the institute. Thank you Anna D, Anna KK, Bow, Carl, Christian, Christina, Ciara, Claes, Emre, Elena, Göran, Henrik, Ivo, Kerstin, Lars, Laurence, Lena
W, Lena Z, Lin, Malin, Patrick, Peter, Robin, Sergey, Sergiy, Stefan, Udo, Vanja, and Örjan for making IIB an exciting and fun place to learn and grow. While all have contributed in important ways, my appreciation especially goes to Claes and Göran, constant colleagues and collaborators, as well as Ciara and Laurence, surrogate big sisters, always ready to make fun and give advice (usually in that order).

I also want to recognize the European Institute of Japanese Studies, where I have been an associate Ph.D. student, for its support. My thanks go to all its members, past and present, and in particular to Magnus Blomström for encouraging me to return to academia and helping to arrange financing, Hiroshi Ono for his constant advice and encouragement, and to Niklas Modig, my fellow Japan adventurer and Ph.D. colleague.

I was also able to spend considerable time abroad during my PhD studies thanks to the flexibility of IIB and its leadership, At the Hong Kong University of Science and Technology, Jiatao Li and the Department of Management of Organizations (MGTO) provided gracious hospitality and insightful feedback on the research. Jeroen Kuilman listened to ideas and offered helpful suggestions while Rajiv Kozhikode, Yi Tang, and Steven Yang inspired enthusiastic lunch debates. A big thank you particularly goes to Riki Takeuchi and the MGTO Taekwondo Club for literally kicking me into (some kind of) shape during my stay!

In Tokyo, Hirotaka Takeuchi and the faculty at the Graduate School of International Corporate Strategy (ICS) provided an office, as well as important feedback, during the end-stages of the dissertation. My gratitude is particularly directed to Christina Ahmadjian who, in addition to arranging my stay at ICS, also offered her comments, support, and challenging questions throughout the dissertation process.

My thanks go also to Pursey Heugens for conducting an excellent mock-defense seminar, and Karyn McGettigan for her exacting editing and proofreading under considerable time pressure; remaining discrepancies and errors in the manuscript are mine and mine alone. Others who have provided help along the way include: Ulf Andersson, Mary-Yoko Brannen, Joseph Cheng, Jerker Denrell, Lorraine Eden, Tom Roehl, Christopher Rydland, Omar Toulan, and Erik Wetter.

These adventures in doctoral studies would not have been possible without the financial support from a number of institutes and organizations. First and foremost, The Swedish School of Advanced Asia-
Acknowledgments

Pacific Studies (SSAAPS) and its chairman Thommy Svensson who provided both long-term financing and an alternative academic venue that served to broaden my horizons; the dissertation is undoubtedly richer thanks to SSAAPS and its diverse group of talented scholars. The Jan Wallander and Tom Hedelius Foundation provided financing for my stay in Hong Kong while Sparbanksstiftelsernas Förvaltnings AB, the Sweden Japan Foundation, and its Secretary General Edvard Fleetwood ensured financial support during my time at ICS in Japan. I gratefully acknowledge this support.

The empirical dissertation work itself was only made possible thanks to the many managers, loan officers, and investment bankers who generously agreed to take time out of their busy schedules to speak with me. While they are too numerous to mention individually by name, all have my deep thanks. I would, however, particularly like to recognize Hideki Kurabayashi, as well as Shusaku Minoda, Jouji Okada, Bob Sharp, and David Tropp for their important contributions.

For his help in introducing me to many of these professionals, I am deeply indebted to Takashi Tonosaki: Without him the Mizuho chapter would never have been written. Web Coates introduced me to Citibank while Sam Griffiths, Christian Hasselström, Tom Hastings, Shion Komatsu, John Mullins, Mark Mullins, Catalin Munteanu, Andrew Phillips, Andrew Saunders, Fredrik Sjödin, Brian Stolz, Fumio Terashima, and many others selflessly offered their time, advice, and help.

Trying to finish a dissertation can easily become a blinding obsession, dominating your every waking moment. At those times, it helps to have people who drag you away from the computer, if only for a few hours. My thanks to Brian, Christian, Filip, Niklas and the Handels dinner crew, the Kunitachi alumni gang, and everyone else for reminding me of life beyond the books.

It also helps to have a supporting family: To my father Göran, for his unfailing inspection and support, as well as his knowledgeable advice on both Japan and the adventure of life in general; To my mother Kicki for her encouragement, enthusiasm, and unbridled energy; To my brothers Jonas and Jakob for cheerfully taking on the hopeless task of ensuring that I retain some semblance of cool – thank you. I am also deeply indebted to my mother-in-law, Yuki for her unwavering support at all times of the day and night, my father-in-law, Joe for his generosity and deep insights into Japan, Amy for her help
with the cover, Pascual for the funky music, and Justin for his Wii and excellent cooking!

Finally, thank you Lukas, because there is no better cure for paralysis by analysis than a little boy who happily reminds you that train parks and sandboxes are, after all, the most important things in life. And to Christine, my biggest champion, who never failed to celebrate even the smallest achievement, to resolutely stamp out my fires of doubt, and who stubbornly refused to lose faith in this work, even when I did: this is for you!

Tokyo
January, 2009
## Contents

<table>
<thead>
<tr>
<th>Acknowledgements</th>
<th>ix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contents</td>
<td>xiii</td>
</tr>
<tr>
<td>List of Tables</td>
<td>xvii</td>
</tr>
<tr>
<td>List of Figures</td>
<td>xviii</td>
</tr>
<tr>
<td>The MNE as a Foreign Firm</td>
<td>1</td>
</tr>
<tr>
<td>1.1 Motivations for the Study and Points of Departure</td>
<td>3</td>
</tr>
<tr>
<td>1.2 Research Focus and Delimitations</td>
<td>7</td>
</tr>
<tr>
<td>1.3 Organization of the Dissertation</td>
<td>8</td>
</tr>
<tr>
<td>1.4 Main Findings and Potential Contributions</td>
<td>9</td>
</tr>
<tr>
<td>Unpacking Foreignness: A Literature Review and Research Framework</td>
<td>11</td>
</tr>
<tr>
<td>2.1 Defining Foreignness: the Firm Apart</td>
<td>11</td>
</tr>
<tr>
<td>2.2 The Liability of Foreignness</td>
<td>16</td>
</tr>
<tr>
<td>2.3 Mitigating Foreignness</td>
<td>23</td>
</tr>
<tr>
<td>2.4 Unanswered Questions and Research Gaps</td>
<td>26</td>
</tr>
<tr>
<td>2.5 The Effects of Foreignness: New Focus, Methods and Units of Analysis:</td>
<td>29</td>
</tr>
<tr>
<td>2.6 Foreignness From a Different Light: Heterogeneity, Roles, and Organizational Action</td>
<td>33</td>
</tr>
<tr>
<td>2.7 Specifying the Research Focus and Framework</td>
<td>40</td>
</tr>
<tr>
<td>Poking Into the Black Box: A Report From Three Pilot Studies</td>
<td>50</td>
</tr>
<tr>
<td>3.1 Methodology</td>
<td>51</td>
</tr>
</tbody>
</table>

xiii
APPENDIX 4: MAJOR ARCHIVAL DOCUMENTS 312

APPENDIX 5: CATEGORIZATION OF THEMES (CITIBANK) 313

APPENDIX 6: CATEGORIZATION OF THEMES (IBJ/MIZUHO) 315

APPENDIX 7: CATEGORIZATION OF THEMES (SHINSEI BANK) 317
List of Tables

Table 2-1: Characteristics and Causes of Foreignness 16
Table 2-2: Theoretical Foundations of LOF in Extant Research 28
Table 3-1: Outline of the Pilot Studies 51
Table 4-1: Main Bank System versus Loan Syndication 80
Table 4-2: Key Characteristics of Case Study Organizations 93
Table 4-3: Documents From Organizations 102
Table 4-4: Articles From Specialized Publications 103
Table 4-5: Exemplars of Data Coding and Categorization 106
Table 6-1: Citibank’s Focus on Novel Product Innovations 140
Table 6-2: Selected Innovations by Citibank in Japan 140
Table 6-3: Citibank’s Focus on Differentiation 143
Table 6-4: Citibank’s Relationships to Borrowers 145
Table 6-5: Citibank Relationship Managers’ Attitudes to Loan Syndication 153
Table 6-6: Citibank Attitude Towards Japanese Banks 159
Table 7-1: IBJ/Mizuho Relationship Managers’ Attitudes to Loan Syndication 172
Table 7-2: IBJ/Mizuho External Client Attitudes to Loan Syndication 176
Table 7-3: Economic and Normative Barriers to Adoption 177
Table 7-4: Japanese Perspectives on Foreign Bank Loan Syndication 182
Table 7-5: Integrating Loan Syndication with the Relationship-Based Approach 196
Table 7-6: Differences in Foreign and Japanese Market-Building Activities 199
Table 7-7: Customer Expectations on Japanese Versus Foreign Banks 200
Table 9-1: Organizational Characteristics Related to Foreignness 220
Table 9-2: Use of Foreignness by Respondents 221
Table 9-3: Internal Characteristics of the Focal Organizations 225
Table 9-4: External Attributions and Image of the Focal Organizations 230
Table 9-5: Summary of Internal Attributes 234
Table 10-1: Internal Barriers to Adoption 251
Table 10-2: External Barriers to Adoption 253
Table 10-3: Cognitive and Normative Barriers to Adoption 255
Table 10-4: Organizational Traits and Barriers to Adoption 256
Table 10-5: Adoption and Implementation Strategies 259
Table 10-6: Product Characteristics 263
Table 10-7: Timing, Format and Product Characteristics of Loan Syndication 268
Table A-1: Citibank Japan Organizational Data 304
Table A-2: Mizuho Corporate Bank Organizational Data 305
Table A-3: Shinsei Organizational Data 306
# List of Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-1</td>
<td>A process-framework of the liabilities of foreignness</td>
<td>25</td>
</tr>
<tr>
<td>2-2</td>
<td>The Effects of Foreignness</td>
<td>41</td>
</tr>
<tr>
<td>2-3</td>
<td>The Research Framework</td>
<td>49</td>
</tr>
<tr>
<td>4-1</td>
<td>Lending Structure of the Main Bank System</td>
<td>77</td>
</tr>
<tr>
<td>4-2</td>
<td>Lending Structure of Loan Syndication</td>
<td>78</td>
</tr>
<tr>
<td>4-3</td>
<td>Overview of research design strategy</td>
<td>87</td>
</tr>
<tr>
<td>4-4</td>
<td>Coding and Within-Case Analysis Process</td>
<td>108</td>
</tr>
<tr>
<td>4-5</td>
<td>Between-Case Analysis Process</td>
<td>110</td>
</tr>
<tr>
<td>5-1</td>
<td>Japanese Press Articles on Loan Syndication</td>
<td>116</td>
</tr>
<tr>
<td>5-2</td>
<td>Adoption of Loan Syndication</td>
<td>117</td>
</tr>
<tr>
<td>5-3</td>
<td>Growth of the Japanese Loan Syndication Market</td>
<td>118</td>
</tr>
<tr>
<td>5-4</td>
<td>Japanese Banks' Non-Performing Loans</td>
<td>124</td>
</tr>
<tr>
<td>5-5</td>
<td>Number of Japanese Press Articles on Non-Performing Loans</td>
<td>125</td>
</tr>
<tr>
<td>5-6</td>
<td>Average Interest Rate Charged by Japanese Banks on Corporate Loans</td>
<td>126</td>
</tr>
<tr>
<td>5-7</td>
<td>Currency Denomination of Foreign Banks' Loan Syndications</td>
<td>135</td>
</tr>
<tr>
<td>8-1</td>
<td>Hurdle rates, Interest Income and Fee Revenues</td>
<td>211</td>
</tr>
<tr>
<td>9-1</td>
<td>The Permanence of Foreignness</td>
<td>222</td>
</tr>
<tr>
<td>9-2</td>
<td>Continuum of Foreignness</td>
<td>224</td>
</tr>
<tr>
<td>9-3</td>
<td>Foreignness, attributes and attributions</td>
<td>236</td>
</tr>
<tr>
<td>9-4</td>
<td>Differential Effects of Foreignness on Attributes and Attributions</td>
<td>237</td>
</tr>
<tr>
<td>9-5</td>
<td>Mechanisms and Traits of Foreignness</td>
<td>245</td>
</tr>
<tr>
<td>10-1</td>
<td>The Effect of Foreignness on Adoption Barriers</td>
<td>258</td>
</tr>
<tr>
<td>10-2</td>
<td>The Effect of Foreignness on Implementation Strategies</td>
<td>265</td>
</tr>
<tr>
<td>10-3</td>
<td>The Advantage of Foreignness in Introducing Loan Syndication</td>
<td>269</td>
</tr>
<tr>
<td>10-4</td>
<td>Advantages and Disadvantages of Foreignness</td>
<td>274</td>
</tr>
<tr>
<td>11-1</td>
<td>The Paradoxical Effects of Foreignness</td>
<td>274</td>
</tr>
<tr>
<td>A-1</td>
<td>Organizational Structure of Citibank Japan</td>
<td>304</td>
</tr>
<tr>
<td>A-2</td>
<td>Mizuho Financial Group Organizational Structure</td>
<td>305</td>
</tr>
<tr>
<td>A-3</td>
<td>Shinsei Bank Organizational Structure</td>
<td>306</td>
</tr>
</tbody>
</table>
Chapter 1

The MNE as a Foreign Firm

Almost everyone knows what it feels like to be a foreigner; whether it be as a newly-arrived exchange student, language-challenged tourist or expatriate employee, the vast majority of us have at some time come face to face with customs, cultures, and practices that are far removed from our own. While we might adapt our own behavior, language, and appearances to deal with these situations, we also know from experiences that foreignness rarely if ever disappears completely.

Like people, organizations have their own nationalities, cultures, and identities; as a result, they also face the uncertainty that comes with being foreign. This is perhaps nowhere more obvious than in the case of the multinational enterprise, an organization that, by its very definition, operates and acts in multiple country contexts (Westney 1993). Indeed, researchers have suggested that this multinationality, and the accompanying foreignness, are core traits of the MNE, differences in kind that set it apart from purely domestic organizations (Westney & Zaheer 2001).

So what does it mean to be foreign for the multinational enterprise? What are the consequences and effects? Arguing that MNEs are afforded an “alien-like” status in host countries (Hennart 1982), international business scholars have generally suggested foreignness is a disadvantage (Hymer, 1960/76; Luo & Mezias, 2002; Zaheer, 1995). Specifically, researchers suggest MNE subunits face extraordinary costs and legitimacy constraints because of their inability to correctly interpret and adapt to local customs, as well as
Chapter 1

their failure to become part of pre-existing knowledge networks and structures (Eden & Miller, 2001; Mezias, 2002; Zaheer & Mosakowski, 1997). This emphasis on the liabilities of foreignness (or LOF, as it is often called) has become a widely accepted and central tenet in international business research (Eden & Miller, 2001; Hennart, 1982; Kostova & Zaheer, 1999; Luo & Mezias, 2002; Luo, Shenkar & Nyaw, 2002; Mezias, 2002; Zaheer, 1995).

There is little doubt that foreignness can indeed be disadvantageous; yet from personal experience many of us know that this is not the whole picture. Even as foreign tourists lose their way in unknown cities, they are often shown both understanding and sympathy by local citizens; expatriate managers are in turn forgiven if their mastery of the host country language is not perfect; and, most exchange students find the year spent abroad to be one of the highlights of their educational experience because it allows them an opportunity to grow and explore.

Being a foreigner or stranger may result in uncertainty and bewilderment, yet the above examples remind us of another subtle but equally important characteristic of being “alien” that mitigate these disadvantages: foreigners often face significantly different demands and expectations than their domestic counterparts. Locals are hence not blind to foreignness but incorporate it into their assumptions and attitudes, often adjusting their behavior and reactions. While this may at times have negative results, in the form of xenophobia and stereotyping, it can also result in greater leeway and understanding for outlandish behavior: faux pas by foreigners may often be forgiven, even as similar behaviors by locals bring ridicule and consternation.

On an individual level, being a foreigner is hence not all bad news, it also has positive implications. Anecdotal evidence suggests moreover that these positive effects are universal, occurring across the board regardless of our individual traits, where we come from or where we go.

Analogies between individuals and organizations should never be taken too far; there is doubtlessly a world of difference in the motives and interests of a vacationing tourist and those of the subunit of a globally competitive MNE. Nevertheless, the above insights raise an interesting question: if foreignness on the individual level is more than simply a disadvantage, might the same be true for organizations? After all, organizations are populated by individuals, who interact with their local environment on a daily basis. Can foreignness then be something other than a liability for the MNE? Might it perhaps even have
beneficial effects? If so, how do these work? What are the mechanisms? And how do the possible benefits of foreignness relate to the liabilities?

Despite recent calls for expanding existing approaches to foreignness (Kostova, Roth & Dacin, 2008; Zaheer, 2002), international business research has largely refrained from entertaining these questions, maintaining instead an overwhelming emphasis on the "stigma of being foreign" (Hymer, 1960/76) and its resulting disadvantages. The objective of this dissertation is hence to revisit these age-old assumptions by asking some new questions. Specifically, what does it mean to be foreign? What are its effects? And how do they impact MNE subsidiaries in host country institutional environments?

1.1 Motivations for the Study and Points of Departure

A closer investigation of foreignness is motivated not only by the preceding analogy, but also by the crucial role foreignness plays in the multinational enterprise. Scholars have long noted that MNEs are unique in their capacity to conduct business simultaneously across multiple cultures, institutions, and national boundaries (Ghoshal and Westney, 1993; Morgan, Kristensen and Whitley, 2001; Westney and Zaheer, 2001). As Westney (1993) argues, it is this multinationality that serves as a difference in kind, setting the MNE apart from domestically oriented actors. Multinationality in particular allows the MNE to source assets, resources and knowledge from multiple national environments, reapplying them in new markets across the globe (Dunning, 1980; 1988).

Foreignness can in turn be seen as the flip side of this multinationality. As Hymer (1960/76) originally observed, MNE subsidiaries are seen and treated differently from host country actors. Due to their lack of local knowledge and weak linkages to domestic cultures, institutions and regulatory bodies, foreign subunits often find themselves to be "strangers in a strange land" (Eden and Miller, 2001; Sofka, 2006). While some of this strangeness can be reduced through learning and adaptation, foreignness is never rendered completely obsolete, remaining a core part of the subunits' local identity (Zaheer and Mosakowski, 1997). While multinationality is a defining trait for the MNE as a whole, foreignness can, therefore, be viewed as a fundamental difference in kind for the individual subunit.
Chapter 1

So given its significance, what exactly does it mean to be foreign? How does it impact the subunits' internal routines, structures and capabilities? And what are the consequences of being foreign in terms of MNE subunits' behaviors and strategies in the local environment? A number of scholars have recently issued calls for expand our understanding of these crucial phenomena (Kostova et al., 2008; Luo & Mezias, 2002; Zaheer, 2002). Researchers have particularly lamented the lack of theoretical and methodological plurality in studies on foreignness (Luo and Mezias, 2002; Zaheer, 2002), actively calling for the adoption of new approaches and conceptualizations. For example in a recent note, Kostova et al. (2008) voice questions about extant frameworks, suggesting the overall approach to foreignness needs to be recalibrated to fit with emerging theories in organizational sociology. While foreignness has long been a central concept in international business theory, it thus remains very much a black-box (Eden and Miller, 2001; Luo & Mezias, 2002).

The underlying motivation of this study is hence to make a contribution to closing this research gap. I do this by adopting an alternative conceptualization of foreignness, relaxing previous assumptions of its underlying effects, and by employing research methods and levels of analysis that have hitherto been sparingly used.

What is Foreignness? An Alternative Conceptualization

While scholars continue to debate the exact definition and scope of foreignness and its liabilities (Eden & Miller, 2001), there is an emerging interest in foreignness as a sociological phenomenon (Luo and Mezias, 2002; Zaheer, 2002); rather than rely exclusively on economic assumptions, this approach hence views foreignness from an organizational standpoint (c.f. Rosenzweig & Singh 1991), focusing on the structural and relational position of the MNE subsidiary within host country institutional settings. Utilizing this perspective, extant research has in particular noted foreignness leads to a weaker level of embeddedness in host country networks, institutions, and cultures (Eden & Miller 2004; Calhoun, 2002; Zaheer 1995). Foreignness hence puts the MNE subsidiary apart, an outsider in host country markets.

Notably, this underlying insight makes no differentiation between home country affiliations; in other words, all MNE subsidiaries are expected to experience some degree of outsider status in the host country, regardless of their nationality. The degree of outsidership has
in turn been the central focus in extant scholarship on the liabilities of foreignness; scholars have hence sought to measure the level of foreignness and its disadvantages by employing various institutional, cultural and regulatory distance measures between home and host countries (Eden and Miller, 2004; Kostova, 1999; see Guillén and Suárez, 2005 for an overview).

While this body of research has provided important insights into different levels of foreignness, the central purpose of this study is to explore the underlying implications of foreignness itself, regardless of country of origin; in other words, I am centrally concerned with the effects of foreignness, rather than its different levels or degrees. Consequently, this study conceptualizes foreignness as an exclusionary characteristic, i.e. a source of differentiation that sets all foreign-owned MNE subsidiaries apart from local actors. The effects that I seek to investigate are, therefore, those that impact any and all foreign firms simply because they are not domestic, rather than those related to their country of origin, whether near or far.

Foreignness and Pressures for Isomorphism: Liability, Viability, or Both?

In line with an organizational perspective on foreignness, a number of researchers have used new-institutional theory to suggest MNE subsidiaries face extraordinary costs due to their inability to conform to host country norms and practices (Rosenzweig and Singh 1991; Zaheer and Mosakowski 1997). Scholars have specifically suggested that a lack of embeddedness in local networks and relationships limits responsiveness to host country pressures for isomorphism, leading in turn to legitimacy constraints (c.f. Meyer and Rowan 1977).

While host country institutional pressures undoubtedly impact the MNE subsidiary, recent findings in organizational sociology have also suggested that local environments provide room for heterogeneity, non-conformity and discretionary isomorphism, without necessary leading to a loss of legitimacy (DiMaggio, 1988; Glynn, Barr and Dacin, 2000; Goodrick and Salancik, 1996; Oliver, 1991). In particular, several studies have found that the level of non-conformity and divergence from pre-existing norms depends upon the role, status, or identity of organizations (Phillips & Zuckerman, 2001; Rao, Monin, & Durand, 2003; Scott, 2001). Weakly embedded firms operating on the fringe of organizational fields, for example, often find it easier to adopt structures and practices that are off-limits to more centrally embedded
Chapter 1

constituents (Leblebici, Salancik, Copay, & King, 1991; Palmer and Barber, 2001; Jonsson, 2008).

Given the fact that foreignness reduces the MNE subsidiary's embeddedness and places it in an "alien" position (Hennart 1982), a central question that arises is what effect this might have on pressures for isomorphism? Kostova and Roth (2002) have for example suggested foreignness may "buffer" the MNE from some of the forces for conformity in the local environment (see also Kostova et al., 2008). If this is the case, what impact could it have on not only the form and structure of the MNE organization, but also its behavior in the host country? How do foreign firms respond to this differential pressure? Can foreignness perhaps even be an advantage for the MNE subunit? An investigation into foreignness is hence warranted because it potentially has implications for our understanding of how MNE subsidiaries strategize and act in host country markets.

MNE Subsidiary Action in Host Country Institutional Settings

The notion that foreignness impacts MNE subsidiary actions also has implications beyond the specific study of the liability of foreignness. The field of international business and management has recently seen a revived interest in the interaction between MNE subsidiaries and host country institutions (Henisz and Swaminathan, 2008; Henisz and Zelner, 2005; Morgan et al., 2001). In particular, a number of scholars have sought to investigate not only what effect the local institutional setting has on the subsidiary, but also whether the MNE subunit might have direct effects of its own on the evolution and development of local practices, norms, cultures, and behaviors (Glimstedt, 2001; Kwok and Tadesse, 2006).

If foreignness does indeed impact MNE subsidiary strategies and actions, what implications does it have for the MNE subsidiary's ability to act as an institutional entrepreneur (Fligstein, 1996, 1997; Zucker & Darby, 1997), introducing and championing alternative practices that subsequently spread within the host country environment? Leblebici et al., (1991) find, for example, that fringe firms on the outskirts of prevailing institutional practices were the first to adopt novel strategies in the U.S. radio broadcasting industry, thereby setting the tone for subsequent evolution and change within the entire field. While scholars have long operated on the assumption that multi-national enterprises are important drivers of host country institutional change.
and development (Blomström & Kokko, 1998; Kokko, 1992; Moran, Graham & Blomström, 2005), few studies have evaluated in detail this mechanism with regard to foreignness.

1.2 Research Focus and Delimitations

The aforementioned motivations provide ample reason for investigating foreignness, yet they also pose a host of potential research questions that far exceed the scope of a single dissertation. Moreover, the concept of foreignness remains very much a black box, and the notion that being foreign might be an asset is certainly virgin territory in international management research. The unifying theme, however, is that foreignness may have more than simply disadvantageous implications, specifically in terms of MNE subsidiaries’ interactions with host country institutions and norms.

Consequently, the objective of this study is to cast preliminary light upon some of the above questions by exploring the relationship between foreignness and the ability to take norm-deviant action in host country environments. In particular, I focus upon if, how, and why foreignness impacts the ability of MNE subsidiaries to be norm-breakers, effectively challenging locally institutionalized behaviors and practices. By doing so, I hope to understand both the expectations and demands that arise as a result of foreignness, as well as the way in which foreign firms act in response to these.

In an effort to understand these questions, the study explores the introduction and evolution of loan syndication in the Japanese corporate banking sector. As I discuss in Chapter 4 (Research Design and Methods), loan syndication is suitable not only because it was a practice that actively deviated from institutionalized norms and behaviors, but also because it exhibits low barriers to entry and was known to Japanese banks from their experiences in the international market. As a result, loan syndication controls for firm-specific knowledge and capabilities, which might otherwise explain how and why foreign firms diverge from reigning host country norms and practices.

Moreover, loan syndication can be traced from its initial introduction in the late 1990s through to its full acceptance in the market 10 years later; by studying the full evolution of this norm-breaking innovation, both on an industry and firm-specific level,
the study endeavors to deepen our insight into the specific mechanisms of foreignness. This research also aims to provide a better understanding of how the effects of foreignness change over time; as several scholars have pointed out, the effects of foreignness vary, yet few researchers have focused on temporal aspects (Zaheer & Mosakowski, 1997). By looking at the interplay between foreignness and the full evolution of a specific practice, I hope to uncover some of these mechanisms.

Although the study obviously necessitates a deeper investigation into the characteristics and meaning of foreignness, my goal is not to offer an exhaustive or final definition of foreignness itself. I seek to crack open and peer into the black box, rather than to organize its entire contents. As a result, my efforts are primarily geared toward understanding the actions and behaviors of the organizations as a result of foreignness, as opposed to the underlying dimensions and meaning of foreignness itself.

Moreover, because many of the concepts and ideas introduced are relatively new, extant research offers limited theoretical guidance as to their effects. As a result, this study is explorative in nature and adopts a comparative case-study research design; this can be contrasted with the mainly quantitative approach of most of the prior research on foreignness.

As case-study designs are particularly suitable for uncovering mechanisms and further developing existing constructs (Eisenhardt 1989), my primary aim is therefore not to test or prove new hypotheses, but rather to build upon existing concepts by delving deeper into some of the questions that I have raised above. At the same time, the study also endeavors to be more than simply descriptive; based upon the findings, I submit a preliminary framework that hopes to inform future research on foreignness and its effects. The investigation can, hence, be characterized as explorative with explanatory ambitions.

1.3 Organization of the Dissertation

The study is organized in three parts: Part 1, consisting of Chapters 2, 3, and 4 outlines the theory and research design; Chapter 2 reviews existing theories on foreignness and organizational action, derives a preliminary definition of foreignness and identifies overarching research questions; Chapter 3 subsequently applies these to three
The Paradox of Foreignness

exploratory pilot studies that have been undertaken in order to investigate the veracity of the underlying focus on norm-breaking action; and based upon the theory and pilot-study chapters, Chapter 4 presents the research design and methods of the dissertation, specifically focusing upon design strategy, research setting, data collection, and analysis methods.

Part 2, which consists of Chapters 5 through 8, presents the empirical results of the study. Chapter 5 provides an industry-level case study of the development of loan syndication in Japan. The purpose of this chapter is both to locate the evolution of loan syndication within the overall institutional context of the Japanese banking industry during the 1990s, and to investigate differences in adoption and introduction of loan syndication by foreign and domestic banks on a population level. Chapters 6, 7, and 8 provide in-depth case studies of how loan syndication was adopted at three different financial institutions. Chapter 6 focuses on Citibank, one of the leading foreign banks in Japan and an early adopter of loan syndication. Chapter 7 addresses the adoption of loan syndication at the Industrial Bank of Japan and its successor: Mizuho Corporate Bank. Chapter 8 discusses loan syndication at Shinsei, a so-called “new” bank, headquartered in Japan, but with foreign ownership and management. Findings from this chapter, therefore, serve to enrich the comparative analysis between the purely foreign and domestic banks.

Part 3 presents the analysis and conclusions. Chapter 9 demonstrates how foreignness led to firm-specific traits, both in terms of internal organizational practices and external assumptions and images. Chapter 10 applies these findings to the specific adoption and implementation of loan syndication, delineating the effects of foreignness on both internal and external support for the new practice, as well as the evolution of the loan syndication market over time. Chapter 11 summarizes the findings, discusses limitations and contributions of the study, and suggests avenues for further research.

1.4 Main Findings and Potential Contributions

As the title of the study suggests, foreignness had a paradoxical effect upon MNE's abilities to introduce norm-breaking action, both enabling and disabling different types of behaviors. Moreover, the findings also suggest that these effects were primarily a result of external audiences'
perceptions and expectations on foreign banks, as opposed to being driven solely by firm-specific knowledge and capabilities. The findings also indicate that foreignness is more than simply an effect; in particular, it had a significant impact on the evolution of subsidiary capabilities and subsequent subunit strategies in the host country market. Foreignness hence led to a specific role, with particular internal attributes and external attributions that served to shape the behaviors and actions of the MNE subsidiaries. In combination, these results in particular cast light on the part played by foreign entrants in the introduction and subsequent development of institution-changing practices.

The findings contribute to existing theory primarily by highlighting that while foreignness is doubtlessly a liability, it also has beneficial effects. The study moreover advances current understandings of foreignness by explicating the underlying mechanisms and processes of these effects. The findings also offer a potential contribution to more general theories of the MNE, beyond the specific literature stream on foreignness. By explicating how a foreign position impacts the development of internal organizational practices, as well as external image and market position, the analysis offers additions to theories of MNE subsidiary evolution and strategizing in host countries, as well as theories of MNE competitive advantage.

Last but not least, this study also contributes to the literature on institutional change in Japan, highlighting both the specific processes and mechanisms by which local actors perceive and learn from foreign competitors, as well as the social and institutional barriers that hinder such imitation. As a result they augment existing macro-level analysis of institutional change and economic development in Japan.
Chapter 2

Unpacking Foreignness: a Literature Review and Research Framework

In the introductory chapter I have sought to set the stage for the overall dissertation objective. In particular I introduced the notion of foreignness and discussed the possible roles of foreign firms in host country institutional environments. The purpose of this chapter is to tighten this broader discussion into an empirically researchable framework. To do so, the initial sections of the chapter review extant conceptualizations of foreignness, focusing in particular on the use of new-institutional theory to investigate liabilities of foreignness literature. I subsequently offer a critique of this literature, identifying research gaps and alternative theoretical approaches. Drawing on this critique, the chapter concludes by identifying specific research questions and develops a research framework to guide the remainder of the study.

2.1 Defining Foreignness: the Firm Apart

The notion that foreignness as such plays a significant role in multinational enterprise subsidiary activity has been one of the hallmarks of international business literature from its very inception. This concept continues to be a subject of interest for researchers (see recent contributions by: Eden & Miller, 2004; Harzing & Sorge, 2003;
Chapter 2

Kostova, 1997; Sofka, 2006; & Zaheer, 2002; see also the 2002 Special Issue of the *The Journal of International Management*, edited by Luo & Mezias). Despite this considerable interest, however, international management scholars have yet to adopt a consistent definition of the concept and characteristics of foreignness (see, for example, discussions in Calhoun, 2002; Luo & Mezias, 2002; Sethi & Guisinger, 2002).

At its most basic, the term foreignness refers to the state of MNE units located in host countries. MNE subsidiaries are, hence, outsiders: similar in status to that of tourists or newly arrived immigrants in a distant land. This notion can be traced back to Hymer (1960/76) who originally suggested foreign firms are treated and viewed differently from national firms. Hennart (1982), in turn, noted that MNEs are afforded an “alien status” in host countries, while Calhoun argued foreignness is tantamount to “…cultural variation…” between home and host countries (2002:31). Meanwhile, Brannen defined foreignness as amounting to “dissimilarity...in operating contexts of a MNE’s home and host environments.” (2002:596) Other authors have highlighted differences in regulative, normative, cultural, and cognitive institutions of home and host countries (see for example Eden & Miller, 2004; Guillén, 2000; Henisz & Swaminathan, 2008).

Two interrelated characterizations emerge from these descriptions: the first is that foreignness is a source of heterogeneity and differentiation (i.e. it sets the MNE subsidiary apart from local actors); the second is that this differentiation is a result of differences in the operating environment of home and host countries. In other words, foreignness does not primarily arise as a result of firm-specific idiosyncrasies; rather, it stems from contrasts in institutions, markets, and cultures. Foreignness is, thus, a relative concept, i.e. it defines the MNE in contrast with domestic actors (Mezias, 2002b; Zaheer, 2002). Moreover, these contrasts can be found both in the internal routines and practices of the organization, as well as in its external image and position.

**Internal Characteristics of Foreignness**

As multinational subunits enter local markets, they bring with them structures, routines, norms, and strategies inherited from the parent organization (Rosenzweig & Singh, 1991). These internal organizational attributes are formed in the home country institutional setting
The Paradox of Foreignness

and are reinforced through headquarters' control and administrative heritage (Bartlett & Ghoshal, 1989). Because the home and host country often exhibit significant differences in terms of culture, legal codes, and market structures (Hamilton & Biggart, 1988; Kostova, 1997; Whitley, 1991, 1999), the inherited internal attributes will also differ from those of the local market.

Scholars have devoted significant attention to investigating the transfer of these practices and their implementation in host countries. Kostova and Roth (2002), for example, study the implementation of what they term strategic organizational practices in multinational subsidiaries, while Fey and Denison (2003) examine the export of native labor practices to new locations. Studies have also shown that MNE subsidiaries do indeed differ from domestic actors in terms of their internal structures, strategies, and routines (see, for example Ono, 2007).

Differences in internal practices are not only driven by the parent organization, however: they also depend upon larger effects from the home country, including trade embargos towards specific countries, financial and accounting practices, and environmental frameworks (c.f. Miller & Parkhe 2002; Nachum, 2003; Zaheer, 1995). Other studies suggest unobservable factors such as norms, values, and cultural orientations serve to differentiate MNE subsidiaries from home country actors (see for example Calhoun, 2002).

MNE subsidiaries are, therefore, foreign because they are characterized by internal routines, practices, norms, and structures that differ significantly from those of local actors. A crucial point that should be clarified is that these dissimilarities are not synonymous with the differences in firm-specific routines and capabilities that often underline the MNE subsidiary's competitive advantages in host countries (c.f. Barney, 1991; Kogut, 1993; Kogut & Zander, 1993). While the contrast in internal routines and practices may often confer a competitive advantage, they can also have negative effects, preventing it from adopting specific strategies or utilizing key resources that are available to local actors. Hence, being foreign simply means that the organization is different; it makes no claim as to whether this difference is necessarily positive or negative.
Chapter 2

External Characteristics: Network Ties and Social Embeddedness

As Luo and Mezias (2002) note, foreignness is ultimately in the eye of the beholder; as a result, foreignness has an impact on not only the internal attributes of MNE subsidiaries, but on their position and image in the larger host country environment as well. To begin with, foreign firms, much like any new entrant, may lack access to local networks and relationships; as a result, an oft-recurring characteristic of foreignness is that it leads to a lack of embeddedness in host countries (Eden & Miller, 2004; Luo & Mezias, 2002; Miller & Parkhe, 2002; Sofka, 2006; Zaheer & Mosakowski, 1997).

Andersson, Forsgren, and Holm (2001a) suggest subsidiary embeddedness can be both structural and relational; the former concerns the firm's position in the overall market, while the latter refers to dyadic or inter-personal contact between the subsidiary and local actors. From this perspective, foreignness leads to weaker structural embeddedness because, as a new entrant, the subsidiary is positioned outside pre-existing horizontal or vertical networks and relationships. These networks may include everything from supplier relationships and distribution channels to research consortiums (Andersson, Forsgren & Pedersen, 2001b; Sofka, 2006).

From a relational perspective, foreignness also leads to weak embeddedness for much of the same reason; executives and managers at foreign firms may have fewer ties with counterparts in the local environment (c.f. Zaheer and Mosakowski, 1997). Significantly, these ties relate not only to direct business partners; they also concern underlying institutions that have significant influence on business norms, regulations, and behaviors. These include, for example, the government, labor unions, and industry associations.

The effect that foreignness has upon the assumptions and beliefs of local actors is closely related to the notion of embeddedness, albeit conceptually different. International management researchers have often highlighted the fact that MNEs may face uncertainty and a lack of knowledge of local markets; however, the converse is also true of domestic constituents (Kostova & Zaheer, 1999). With little knowledge or understanding of the foreign firm and its home country, domestic constituents may form stereotypes about the MNE or quickly  

---

1 In fact, as MNEs often undertake at least some degree of market research prior to foreign entry, one might argue that the uncertainty and lack of knowledge will be greater on the part of the host country.
categorize it with other non-domestic entities (Kostova & Zaheer, 1999; Li, Yang, & Yue, 2007). As aforementioned, domestic actors may view the MNE organization as inherently alien (Hennart, 1982) and, hence, ascribe characteristics or expectations that are not necessarily reflected in the actual behavior of the MNE.

The Dynamics of Foreignness

The internal and external characteristics of foreignness are, of course, not static; internally, MNE subsidiaries may alter their specific routines, practices, and behaviors in order to resemble local practices, values, and regulations (Kostova & Roth, 2002; Rosenzweig & Singh, 1991). Externally, MNE subsidiaries may, in turn, increase their network embeddedness and relationships over time as they build local alliances and partnerships (Andersson et al., 2001a; Andersson et al., 2001b).

As Johanson and Vahlne (1977) have underlined in their influential study on internationalization, the long-term success of foreign market operations hinges upon an incremental learning process. As MNE subsidiaries learn more about the host country, and also apply knowledge and experience from market entry in other markets, their foreignness - both in terms of their internal routines and external positions - may be gradually reduced (Petersen & Pedersen, 2002; Rosenzweig & Singh, 1991; Zaheer & Mosakowski, 1997).

At the same time, however, there is a limit to this learning and the reduction of foreignness. For example, Hymer (1960/76) noted that while foreign firms can learn the local language, come to understand formal and informal host country rules, and even grasp domestic cultural values, they will always be seen as different, simply by virtue of their nationality and identity; the foreign firm will, thus, always be an alien (c.f. Hennart, 1982) in the eyes of local actors (Eden & Miller, 2004).

Moreover, this permanent aspect of foreignness is accentuated by the limits to internal adaptation and change. If the MNE subsidiary adapts too much to local practices and routines, it may risk abandoning the specific values, routines, and cultures that are a critical part of its operations and its role in the larger MNE network; administrative heritage and headquarter control, therefore, ensure the subunit maintains many of the crucial functions and attributes linking it to the parent organization (Bartlett & Ghoshal, 1989). As Rosenzweig
and Singh (1991) note, MNE subsidiaries are, thus, dually embedded in both the host country institutional environment and its broader MNE network. As a result, aspects of foreignness will continue to prevail over time, albeit at reduced effects.

MNE subsidiaries, therefore, differ from local actors in terms of both internal and external organizational traits, as outlined in Table 2-1 below. While the degree of these discrepancies may differ among subsidiaries and, in fact, diminish over time, they are never fully eliminated. Hence, these differences remain a core characteristic of the foreign subunit.

Table 2-1: Characteristics and Causes of Foreignness

<table>
<thead>
<tr>
<th>Location</th>
<th>Characteristic</th>
<th>Cause</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal</td>
<td>Organizational routines, structures and practices differ from host country actors</td>
<td>Practices, routines and structures inherited from parent organization, reinforced by administrative heritage</td>
</tr>
<tr>
<td></td>
<td>Uncertainty about local market practices</td>
<td>Lack of knowledge and information about local market</td>
</tr>
<tr>
<td>External</td>
<td>Lack of embeddedness in local networks</td>
<td>Lack of connections and relationships</td>
</tr>
<tr>
<td></td>
<td>Stereotypes and assumptions by local actors</td>
<td>Uncertainty and lack of information on the part of local actors</td>
</tr>
</tbody>
</table>

2.2 The Liability of Foreignness

Due to its centrality in international business research, scholars have proposed a number of ways to measure foreignness. For example, researchers in cross-cultural management have used Kogut & Singh’s (1988) index of cultural distance to measure differences in managerial styles (Mezias et al., 2002; Ralston et al., 1997). Others have focused on managerial mental models and attitudes and the ways in which they differ between countries (Calori, Johnson, & Sarnin, 1992). A number of researchers have also proposed measuring institutional distance, using a wide variety of variables (Eden & Miller, 2004; Harzing & Sorge, 2003; Kostova, 1997).

The difference between home and host country cultures and institutions has, in turn, been variously used to explain the sequential choice of market entry (Johanson & Vahlne, 1977), choice of entry mode (Chen, 2006; Eden & Miller, 2004; Kogut & Singh, 1988), and
The Paradox of Foreignness

local acquisition performance (see Mezias et al., 2002 for an overview; Morosini, Shane, & Singh, 1998). While the specific focus, variables, and approaches of these studies vary greatly, they all share the common underlying notion that foreignness and home-host country distance has a fundamentally negative effect upon the MNE.

This notion that foreignness is a disadvantage stems from the original writings of Hymer (1960/76), who suggested firms face extraordinary costs when doing business abroad; he argued that these costs arise because domestic actors have better information about local markets, and because foreign firms potentially face discrimination or unequal treatment at the hands of host country governments, judiciaries, suppliers, and customers (see also Hennart 1982). Zaheer (1995) subsequently expanded upon Hymer’s original notion, arguing that the costs of doing business abroad are driven by four underlying factors: 1) a lack of knowledge about the host country on the part of the MNE; 2) geographical distance; 3) legitimacy constraints upon the MNE in the host country; and, 4) home country effects (e.g. regulations and barriers to trade).

A number of scholars have documented empirical evidence for the existence of liabilities of foreignness. Mezias (2002) has shown that foreign firms are disadvantaged in law-suits in the United States due to their lack of embeddedness and their weak understanding of local legal processes; Sotka (2006) demonstrates that because of their lack of embeddedness, foreign firms are often excluded from important inter-firm networks, hence, reducing knowledge spillovers. Zaheer and Mosakowski (1997) find that foreignness is a liability in foreign exchange trading for much of the same reason, while Miller and Parkhe’s (2002) findings indicate foreign banks are less efficient than domestic banks in various international markets (see also Miller and Richards, 2002). These empirical studies are further supported by substantial anecdotal evidence that MNEs do, in fact, face specific negative effects due to their outsider status in host country markets (see for example discussions in Doz, Bartlett, & Prahalad, 1981; and Kostova & Zaheer, 1999).

Zaheer (1995) has further argued that the liabilities of foreignness underlie much of the traditional literature on the multinational firms – in order to overcome more or less permanent disadvantages in host countries, MNEs must continuously rely upon firm-specific capabilities, technologies, and knowledge structures in order to give them a competitive advantage over local competitors (Buckley &
Chapter 2


An Organizational View of Foreignness

While the concept of liabilities of foreignness was initially associated with any and all extraordinary costs faced by MNE subsidiaries in host countries, scholars have recently come to further refine the concept. In particular, Zaheer (2002) has drawn a line between the costs of doing business abroad (CDBA) and the liabilities of foreignness (see also Eden & Miller, 2004). While CDBA encompasses all of the four aforementioned factors, Zaheer suggests that liabilities of foreignness relate specifically to costs arising from the foreign firm's position vis-à-vis host country structures, relations, and institutions. She notes:

“What I mean by structural/relational costs are the costs associated with a foreign firm's network position in the host country and its linkages to important local actors... One could think of institutional costs as costs associated with a foreign firm's distance from the cognitive, normative and regulatory domains of the local institutional environment...”

(p. 351-352, original emphasis)

This organizational approach to foreignness (Zaheer 2002), thus, emphasizes the social and institutional impacts of being foreign as opposed to the purely market-driven effects. While Zaheer's work dealt specifically with the notion of foreignness, it also mirrored an emerging realization among international organization theorists and management scholars that host country institutions have a direct effect upon the MNE subsidiary. Rosenzweig and Singh (1991), for example, note that subsidiaries are not only economic actors but also social entities, simultaneously embedded in the host country environment and the MNE organization. This dual-embeddedness, they suggest, potentially leads to conflict between the subsidiary, headquarters, and local environments. Westney (1993) in turn suggests that MNE subsidiary strategies of adaptation, localization, and innovation need to be understood and analyzed in relation to host country pressures for isomorphism and legitimacy.

In analyzing the interplay between MNEs and host countries, both Rosenzweig and Singh (1991) and Westney (1993) apply insights from
new-institutional theory. Scholars investigating the liabilities of foreignness have followed in this path, focusing in particular upon how foreignness influences the level of isomorphism and conformity of MNE subsidiaries and, hence, their legitimacy in host country environments (Kostova and Zaheer, 1999).

**Legitimacy and Isomorphism: a New-Institutional Approach to Foreignness**

A central tenet of new-institutional theory posits that firms operating within the same organizational field will adopt similar structures, practices, and norms through various processes of isomorphism (Boxenbaum & Jonsson, 2008; DiMaggio & Powell, 1983). These processes include coercive pressures emanating from governments or other regulators, normative effects brought on by professionalization of employees, and the mimicry of adjacent role models.

A cornerstone of this approach is that adoption is not driven by efficiency but propelled instead by the need for legitimacy (Meyer & Rowan 1977). Legitimacy is, therefore, a crucial aspect of new institutional theory (Ashforth & Gibbs, 1990; DiMaggio & Powell, 1983; Singh, Tucker, & House, 1986; Suchman, 1995). Suchman defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (1995:574). Legitimacy thus not only accords the organization membership in a broader social structure; it also confers value or desirability to the entity and its actions.

It is important to note that legitimacy is crucial not only as an epitaph or status; it also has a very real and significant economic effects. These include increased access to resources such as external funding, government contracts and other inputs, as well as customer markets. Organizations, therefore, gain legitimacy by responding to pressures for isomorphism and adopting valued and appropriate organizational traits, thereby, increasing their chances of survival and access to important resources (Meyer & Rowan, 1977; Scott, 2001). Conversely, organizations that are unable or unwilling to respond to isomorphic pressures risk being seen as illegitimate and potentially even failing as they are cut off from important inputs and output markets (Singh et al., 1986).

Because institutions exist not only in the external environment, but also permeate the actions and behaviors of the organization itself,
the process of isomorphism and subsequent legitimacy enhancement takes place both within and outside the organization. Legitimacy is, therefore, a dual process – it involves internal organizational action (i.e. adaptation and responsiveness to isomorphic pressures) with the goal of achieving external recognition and acceptance (c.f. Greenwood & Hinings, 1996).

International organization scholars have built upon these notions to suggest MNEs must comply with host country pressures for conformity and isomorphism. Rosenzweig and Singh (1991) for example suggest isomorphism with local environments is especially relevant for the MNE subunit due to the inherent uncertainty of foreign market entry. They argue “to survive and prosper, subsidiaries of MNEs tend to take on the characteristics of other organizations in the local environment.” (1991:345). Kostova and Roth further develop the concept by suggesting that “since it is vital for an MNC to achieve and maintain legitimacy in all its environments, it will experience the pressure to adopt local practices and become isomorphic with the local institutional context.” (2002:215).

In light of these arguments, foreignness has been identified as a liability primarily because it prevents MNE isomorphism and adaption to host country norms and practices (Zaheer & Mosakowski, 1997). In particular, scholars have suggested the negative effects of foreignness arise both due to its internal characteristics and external positions and image. (Kostova & Roth, 2002; Kostova & Zaheer, 1999; Rosenzweig & Singh, 1991; Zaheer, 1995).

Internal Sources of LOF: Deviant Practices and Limitations to Adaptation

As aforementioned, the structures, practices, and behaviors that MNE subsidiaries inherit from headquarters and the home country often deviate significantly from host country institutionalized norms, practices, and values. Luo and Mezias have suggested liabilities of foreignness directly arise as a result of this deviance, noting that the absence or incorrect use of accepted practices “...creates tensions between stakeholders, which may trigger coercive responses from powerful institutions...” (2002:218). Extraordinary costs, therefore, arise when internal attributes of the MNE subsidiary contradict local norms and trigger negative responses from the environment, thereby, lowering the MNE subsidiary's legitimacy (Kostova & Zaheer, 1999).
The Paradox of Foreignness

Due to a general lack of isomorphism, MNE subsidiaries may also find it difficult to interact with local suppliers or customers who view their behavior as irregular. This lack-of-fit with the activities and norms of local actors hampers the legitimacy of the MNE subsidiary in external networks, thereby, limiting access to important local markets and increasing costs and uncertainty (Sofka, 2006).

Significantly, the adoption of practices inherited from abroad may also put the subsidiary at a competitive disadvantage vis-à-vis local actors (Zaheer, 1995). For example, the subsidiary may have to comply with environmental standards that are more stringent than those of the host country, employ human resource practices that run counter to locally accepted norms, or be subject to stricter financial reporting requirements that limit its strategies and actions in the host country (Miller & Parkhe, 2002; Zaheer, 1995).

Finally, even when the MNE subsidiary may be willing to adapt to isomorphic pressures, the inheritance of home country norms, values, and practices may make this process difficult. Calhoun suggests, for example, that "...gaps in understanding caused by cultural variation..." (2002:301) inhibit managers at MNE subsidiaries from correctly interpreting tacit host country norms and taken-for-granted behaviors. Luo et al. (2002) similarly posit that high institutional distance between home and host country will result in higher costs for the subunit as it tries to make sense of, and function within, the local milieu (see also Mezias, 2002a).

External Sources of LOF: Weak Embeddedness and Local Stereotypes

Externally, foreignness leads to weak structural and relational embeddedness in host country environments. A number of scholars have suggested that this has a delegitimizing effect because it identifies the subsidiary as an outsider and potential deviant about which the local audiences know little (Kostova & Zaheer 1999). Due to a lack of linkages with local companies, governments, and other critical actors, MNEs face what Eden and Miller denote "institutional hazards" (i.e. constraints and barriers resulting in a "...lack of legitimacy... [and]...discriminatory treatment by...customers, suppliers, competitor firms and the government." (2001:5; see also Zaheer & Mosakowski 1997).

Moreover, because it hinders access to important information about local norms, practices and culture, weak embeddedness may
also inhibit the ability of MNE subsidiaries to adapt. For example, in his study of lawsuits in the United States, Mezias suggests that a lack of embeddedness enforces liabilities of foreignness because it precludes “...information spillovers and vicarious learning, which may be especially important for those unfamiliar with host country social, cultural, and legal norms.” (2002a: 242).

As also previously noted, local audiences may lack information about the MNE or harbor stereotypes and pre-conceived notions of its country of origin. If these assumptions lead to a rejection of the MNE subsidiary, they will further reduce embeddedness, thereby, heightening LOFs. Stereotypes may also make the subsidiary more vulnerable to attacks by local interest groups and activists who use the firm as a scapegoat to promote their own agendas (Kostova & Zaheer 1999). Due to their positions as outsiders, the actions and practices of the MNE subsidiary may also be scrutinized and monitored more closely by host country audiences; as a result, Kostova & Zaheer (1999) have suggested foreignness potentially increases the standards of conformity and isomorphism required to gain legitimacy in the host country.

The Dynamics and Economic Costs of Legitimacy Constraints

While the factors underlying legitimacy constraints can be divided into internal and external aspects, it should be emphasized that the previous discussion suggests that they often act in tandem. MNE subsidiaries adopting norm-deviant practices may reinforce external stereotypes, thus, leading to reduced embeddedness and further illegitimacy. Conversely, a weak level of embeddedness may prevent the MNE from correctly interpreting tacit local norms, leading to the adoption of deviant practices, which reinforce notions of foreignness, further reducing embeddedness, and so on.

Moreover, illegitimacy has very real economic effects on the MNE subsidiary. A lack of legitimacy reduces access both to input and output markets, thereby, potentially increasing costs and reducing revenue. In addition, an inability to adopt local norms and practices may, as aforementioned, put it at a competitive disadvantage vis-à-vis local competitors. Luo, Shenkar and Nyaw have suggested foreignness puts the MNE subsidiary at a disadvantage because it results in "extra costs...which a local firm will not incur, on account of investing,
The Paradox of Foreignness

operating, and managing in the foreign country's task and institutional environment." (2002:284)

2.3 Mitigating Foreignness

Given the constraints and increased costs that arise as a result of foreignness, scholars have devoted significant attention to how these are overcome by MNE subsidiaries (Zaheer 1995). As Luo et al note, "finding effective mechanisms that can overcome the liabilities of foreignness...is the central study of LOFs" (2002:283).

To begin with, the notion that MNE subsidiaries overcome liabilities of foreignness by relying on firm-specific resources, assets, and capabilities is a central tenet in international business research. Transaction-cost oriented scholars have focused upon the ability of MNEs to internalize markets, thereby, leading to greater efficiency and competitive advantages (Buckley & Casson 1976; Caves 1996; Hennart 1982). Subsequently, scholars have also focused upon firm-specific assets and resources - including capabilities and tacit knowledge - as underlying drivers of competitive advantage (Kogut & Zander 1993).

Significantly, the emphasis on firm-specific sources of competitive advantage does not focus upon reducing the liabilities of foreignness; rather, by increasing revenues and competitive advantage, it provides means to overcome them. Instead of explicitly highlighting the source of liabilities of foreignness, these scholars have hence emphasized the ways in which MNEs can offset the costs of being foreign (c.f. Zaheer 1995).

In contrast, a number of scholars have also suggested the negative effects of being foreign are reduced through learning and adaptation (Petersen and Pedersen 2002). This emphasis originates in the behavioral view of internationalization (Johanson and Vahlne, 1977; Johansson and Widerseim-Paul 1978) that suggests MNEs learn incrementally about local markets through experience and stepwise internationalization patterns.

As a result of increased knowledge of the local environment, MNE subsidiaries can take active steps in adapting internal practices as well as strengthening their external positions, thus, reducing the negative effects of foreignness. Adaptation itself has long been a central focus of international management as researchers recognize the difficulty of imposing globally standardized practices, products, and routines
across differing environments (Bartlett & Ghoshal, 1989; Doz et al., 1981). Scholars have variously suggested that firms reduce foreignness by utilizing local employees (Mezias, 2002a), adjusting products to fit with local market needs (Bartlett & Ghoshal, 1989), and creating flexible control mechanisms that grant local subsidiaries greater autonomy in responding to host country demands (Hedlund, 1986).

Externally, proposed mitigation strategies include local networking through the development of interpersonal relationships with prominent business leaders and politicians, strategic resource commitments to local business partnerships, contributions to local social causes, and general legitimacy-enhancing strategies associated with improving the image of the company and its understanding among local audiences (Kostova & Zaheer, 1999; Luo et al., 2002).

Limits to Mitigation and the Sustained Negative Effects of Foreignness

MNE subsidiaries have been shown to adopt a combination of these various strategies in order to offset and overcome the negative effects of being foreign. Despite this, however, the liabilities of foreignness are often enduring. For example, Zaheer & Mosakowski (1997) have shown how the effects of foreignness are sustained over long periods of time, even as the organization learns about the local environment.

Part of the reason for this is that there is a limit to the MNE subsidiary’s level of isomorphism and adaptation; because of their dual embeddedness (Rosenzweig & Singh, 1991), MNE subsidiaries are forced to respond to both pressures for conformity from the local environment, as well as demands for co-ordination and integration with the parent company. As Bartlett and Ghoshal (1989) show, this pull between local adaptation and global integration is a significant issue faced by most, if not all, multinationals - especially when competing in global businesses where competition spills across borders.

The effects of foreignness are also sustained due to the attitudes and assumptions of local actors (Kostova & Zaheer, 1999). As Hymer (1960/76) argued, MNE subsidiaries and their employees can learn the local language, study host country legal codes, and even come to understand the tacit nature of norms and cognitive institutions. While this may somewhat decrease their outsider status, they will
The Paradox of Foreignness

nonetheless continue to be seen as foreigners by local governments, suppliers, customers, and competitors.

* * *

In summary, international management scholars have suggested MNE subsidiaries have an outsider or alien status in foreign markets due to differences between home and host country institutional settings. Within the MNE, these differences manifest themselves in the form of firm-specific strategies and behaviors, as well as difficulty understanding and responding to local norms and taken-for-granted values. Among host country actors, foreignness in turn results in uncertainty, stereotypes and a weak level of embeddedness for the MNE subsidiary. Together, these internal and external effects lead to liabilities of foreignness, resulting in higher costs and lost revenues for the MNE, as shown in Figure 2-1 below.

Figure 2-1: A process-framework of the liabilities of foreignness

Subsidiaries of multinational enterprises can overcome these negative effects by leveraging firm-specific advantages, but they can also seek to mitigate their foreignness through learning, adaptation and isomorphism. While these efforts may reduce the level of foreignness, scholars have suggested that the effects of being an outside entity are
sustained over the long-term due to the perceptions and assumptions of host country constituents.

2.4 Unanswered Questions and Research Gaps

While earlier studies on foreignness and its negative effects have provided important empirical insights, they are also characterized by a limited theoretical and methodological scope (c.f. Luo & Mezias, 2002). As a result, our understanding and conceptualization of foreignness is to some extent incomplete. In the following section I highlight some of the research gaps that have emerged and also link these with new developments in organization theory.

What to study: Foreignness or LOF?

In the literature review of the previous section, I purposely present foreignness as a concept on its own before discussing the liabilities of foreignness. The perceptive the reader will note however that there is little if any research that actually investigates foreignness per se. While there are numerous studies that investigate the lack of fit and dissimilarity that is characteristic of foreignness, these rarely if ever use the term foreignness itself.

Foreignness has instead almost exclusively been used in relation to the negative effects of being an outsider in a host country. While foreignness as such is rarely discussed or used, the term liability of foreignness has become a recognized concept in and of itself, even to the point of earning its own acronym – LOF. LOF has been the subject of special issues in prominent journals (Luo & Mezias, 2002) and is also featured as a pre-determined keyword and subject in online submission systems to leading international business journals and academic conferences (including the Academy of International Business, the Journal of International Business Studies and the Academy of Management’s International Management Division). None of these submission systems however feature Foreignness as a concept of its own.

Extant research thus places little emphasis on the concept of foreignness itself, emphasizing instead its negative effects. This is despite the fact that the dissimilarity that arises due to foreignness is not necessarily negative. Zaheer argues as much, suggesting that we
need greater "...understanding of foreignness and its ramifications" (2002:357). With the exception of a few notable studies discussed further below, few scholars have taken up this challenge.

Operating on a priori Assumptions: LOF as the Variable of Analysis

The reason foreignness has overwhelmingly been analyzed as a liability can be found in the assumptions underlying many of the contributions to the field. As Table 2-2 below indicates, the vast majority of empirical studies on foreignness begin by referencing Hymer's (1960/76) early arguments as well as later scholars' theoretically derived propositions - for example Zaheer (1995) and Kostova & Zaheer (1999).

Based on these references, many researchers subsequently test when and to what extent foreignness has negative effects (see for example Hennart, Roehl, & Zeng, 2002; Mezias, 2002a; Miller & Parkhe, 2002; Miller & Richards, 2002; Sofka, 2006; Zaheer & Mosakowski, 1997), how MNEs overcome and minimize these negative effects (Zaheer, 1995; Luo et al., 2002; Petersen & Pedersen, 2002) as well as the effect of the liabilities of foreignness on strategic decisions, including entry mode (Chen, 2006), ownership structure (Eden and Miller, 2004) and the use of expatriates (Matsuo, 2000; Mezias, 2002a). A number of scholars have also offered theoretical pieces aimed at deciphering and conceptualizing the liability of foreignness (Luo and Mezias, 2002; Sethi and Guisinger, 2002), as well as guides for suitable research designs to study the phenomenon (Mezias, 2002b).

While these studies are important contributions to the literature on foreignness, it's notable that they all begin with the assumption that foreignness has a negative effect; the liabilities of foreignness are hence assumed a priori and taken as given. Many of the studies listed in Table 2-2 for example do not seek to investigate the direct relationship between foreignness and organizational performance, survival and efficiency; instead they focus on how LOF affects these measurements, as well as methods for mitigating LOF. In other words, the a priori assumption that foreignness leads to extraordinary costs has often resulted in studies where the central variable or causal effect under investigation is the liabilities of foreignness, as opposed to the effects of foreignness.


Table 2-2: Theoretical Foundations of LOF in Extant Research

<table>
<thead>
<tr>
<th>Author and year</th>
<th>Assumptions of foreignness</th>
<th>Assumptions referenced to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hymer (1960/76)</td>
<td>“Foreign firms are treated differently from national firms...[because of] the stigma of foreignness.”</td>
<td>Anecdotal evidence, theoretical assumptions</td>
</tr>
<tr>
<td>Zaheer (1995)</td>
<td>“The liability of foreignness can arise from...costs associated with spatial distance; firm-specific costs based on unfamiliarity with the local environment; costs resulting from the lack of legitimacy of foreign firms; costs from the home country environment.”</td>
<td>Hymer (1960/76) Kindelberger (1969) Rosenzweig and Singh (1991)</td>
</tr>
<tr>
<td>Zaheer and Mosakowski (1997)</td>
<td>“Firms abroad face unavoidable costs that firms operating in their home country do not...such as higher coordination costs, unfamiliarity with local culture, lack of information networks...inability to appeal to nationalistic buyers.”</td>
<td>Hymer (1960/76) Zaheer (1960/76)</td>
</tr>
<tr>
<td>Eden and Miller (2004)</td>
<td>“The costs of doing business abroad that result in a competitive disadvantage for an MNE subunit ...broadly defined as all additional costs a firm operating in a market overseas incurs that a local firm would not incur”</td>
<td>Hymer (1960/76) Zaheer (1995) Zaheer and Mosakowski (1995)</td>
</tr>
</tbody>
</table>

Re-Examining Empirical Support for the Liabilities of Foreignness

As noted above, there are a number of studies that have investigated the impact of foreignness on efficiency (Miller and Parkhe 2002; Miller and Richards 2002), survival (Kostova and Mosakowski 1997) and other performance-related variables (Inisch and Miller 2005; Mezias 2002; Nachum 2003; Kostova and Roth 2002). Taking LOF as an a priori assumption, the vast majority of these also find strong support for the notion that foreignness can be disadvantageous to the MNE.
Indeed, the purpose of this dissertation is not to call these findings into question – few scholars would deny foreignness could result in disadvantages for the multinational subsidiary. The key word however is "can": foreignness can have negative effects. This however does not imply that foreignness must necessarily always have negative effects. Indeed, a review of the above studies shows that while many of them find evidence of the liabilities of foreignness, there are also results which suggest this may not be the full picture. Departing from the majority of studies, Nachum (2003) for example compares the performance of domestic and foreign banks in London and finds that foreignness in fact had little or no effect.

Zaheer's (1995) findings in turn offer evidence suggesting weak isomorphism with host country practices (particularly in terms of performance-based pay and hiring practices) actually reduces the negative effects of foreignness (p. 357). Kostova and Roth's (2002) empirical results indicate isomorphic pressures from host country regulatory and normative institutions did not inhibit MNE subsidiaries from implementing organizational routines inherited from the home country. Insch and Miller (2005) find foreignness may lead to positive attributions on the part of host country actors and audiences. These empirical results thus call into question the implicit assumption that foreignness and outsidership is necessarily detrimental to MNEs.

Finally, some scholars have suggested that existing findings on the LOF suffer from weak operationalization of variables and constructs. Hennart, Roehl and Zeng (2002) for example show that MNE subsidiary exits from host countries - commonly used as a proxy variable for liabilities of foreignness – can be explained by a host of other factors (see also Calhoun, 2002; Luo & Mezias, 2002).

2.5 The Effects of Foreignness: New Focus, Methods and Units of Analysis:

Prevailing research thus offers significant support for the notion that foreignness can be a liability, but this does not necessarily mean foreignness is always a disadvantage. In fact, many of the studies cited above readily submit that foreignness may not always have a negative effect on the MNE. Unfortunately, the vast majority of researchers interpret this admission in light of their a priori assumptions about foreignness; in other words, when LOFs are found to be low or
non-existent, scholars have implicitly assumed that foreignness itself is also negligible or non-existent (c.f. Kostova and Mosakowski 1997). By relying on the a priori assumption of LOF, however, researchers have largely missed the chance to ask a more important question: if foreignness does not have a negative impact on the firm, might it have other effects instead?

Asking whether foreignness is more than just a liability is important because it offers a crucial evaluation of the core assumptions underlying extant research. It broadens the underlying research focus by asking how and why foreignness impacts the MNE subsidiary, as opposed to asking how and why foreignness is a liability for the subsidiary. This broader approach would appear especially important in light of recent recognition by numerous scholars that foreignness is indeed a complex and largely unexplored black-box concept that needs to be evaluated further (Calhoun, 2002; Kostova et al., 2008; Luo & Mezias, 2002; Zaheer, 2002). To date, however, few scholars have sought to delve into these questions in detail.

Highlying Effects: Linking Mechanisms and Action

An investigation into how and why foreignness impacts the MNE requires not only a broader emphasis on overall effects; it also calls for a closer look at underlying mechanisms and processes. Empirical studies to date have for example linked foreignness to aggregate effect measures, including survival (Zaheer & Mosakowski, 1997), efficiency (Miller & Parkhe, 2002) and profitability (Zaheer, 1995). What we lack from these findings however is an understanding of how and why these results came about. How and why exactly does foreignness lead to lower efficiency, weaker profitability and reduced life spans? What are the processes involved?

Processes in turn call for investigating the organizational actions and subsequent mechanisms that arise due to foreignness. Such actions indeed lie at the very heart of existing assumptions of foreignness; Hymer (1960/76) suggest for example that extraordinary costs of foreignness are due to active discrimination and exclusion of foreign firms by local governments. Illegitimacy costs and institutional hazards are either mitigated through active learning and adaptation on the part of the MNE, or alternatively heightened as the subunit embarks on ill-advised or incorrect actions in the host country. Negative effects of foreignness also arise as a result of local firms'
responses to the MNE subsidiary, for example in the form of discrimination or increased competitive pressure (c.f. Caves & Porter, 1977). Understanding the effects of foreignness thus requires an investigation into how and why foreignness leads to specific actions, both on the part of the MNE subsidiary and local constituents.

Understanding mechanisms and processes also requires de-aggregating foreignness according to its internal and external characteristics. As discussed earlier, foreignness characterizes both the internal organization and its role in the external environment. These aspects are closely inter-related but may at times have different effects – one for example is driven by the MNE subsidiary's own actions while the other depends crucially on local actors (Kostova & Zaheer, 1999). Any understanding of specific mechanisms and processes of foreignness must explicitly investigate these two different aspects. To date, however, extant research has largely shied away from this unit and level of analysis.

Alternative Methodologies

One reason for the lack of empirical study of processes and mechanisms may be that questions of how and why necessitate an inductive and qualitative research strategy; this would particularly seem to be the case when the underlying variable, foreignness, is itself a largely undefined concept. As Zaheer (2002) suggests, understanding what it means to be foreign requires alternative research methods, including ethnographic approaches. By contrast, the majority of research on the liabilities of foreignness has been deductive and quantitative in nature.

A notable exception to this rule is Mary-Yoko Brannen's (2004) study of Disneyland's entry into Japan and France. Employing the ethnographic method, Brannen investigates how the norms and values surrounding Disneyland's organizational routines, brands and values were transferred and implemented in new cultures and institutional environments. Interestingly, she finds that in the case of Japan, Disneyland's foreignness was in fact an asset; specifically, the foreign identity and "exoticness" of Disney gave it credibility beyond that of competing domestic Japanese theme parks. She furthermore finds that this exoticness was a liability when the company sought to set up a theme park in Paris a few years after the entry into Japan. Brannen's study hence exemplifies the value of employing contextual and
qualitative approaches to uncovering the multifaceted effects of foreignness.

The Role of Host Country Actors

Brannen's (2004) discussion of how local Japanese and French customers reacted to Disneyland also points to another important but largely disregarded element of existing studies, namely the role of local audiences and their perceptions. Despite the general agreement that host country actor attitudes and perceptions do matter, few researchers have empirically approached the role of foreign organizations from this perspective (see Kuilman and Li, 2006; Li et al., 2007 for some recent exceptions). Instead, scholars have concentrated on the MNEs’ abilities to learn and adapt to local markets, using this as a primary measure for reduced amounts of foreignness and illegitimacy (c.f. Petersen & Pedersen, 2002).

While MNE subsidiaries can manage their foreign identities to a certain degree (Luo et al., 2002), the success of local adaptation policies and impression management strategies ultimately depends on their ability to win over local actors, not only on the efforts of the foreign firm. As in the case of Shell in Nigeria, retold in Kostova and Zaheer (1999), firms that are well-adjusted to host country norms and even actively contributing to local social and economic development may still face hostile action and suspicion from domestic actors. By emphasizing MNE learning and adaptation, as opposed to local reactions and perceptions, scholars have largely focused on efforts instead of final effects (c.f. Zaheer 2002).

Host country actors are important to study not only as creators of foreignness and its image, but also as representatives of the local environment. As Mezias (2002b) and Zaheer (2002) note, foreignness is at heart a relative phenomenon, hence understanding its impact requires comparing the MNE with domestic firms. Moreover, as noted above, host country firm actions are important because they have a direct impact on the profitability, efficiency and survival of the foreign firm. These effects can be negative, resulting in for example price wars and competitive moves to drive the foreigner out, but they may also be positive, leading to joint research and development or alliances and mutual learning. In other words, what do host country actors do when foreign firms enter? Do they ignore them? Attack them actively? Imitate
them? Exclude them? These are crucial questions that must be answered in any analysis of the effects of foreignness.

Finally, existing research on foreignness has largely seen host country actors as homogenous in beliefs and stereotypes towards foreign actors. While some scholars have recognized differences among host country actors' approaches to foreign firms, they have largely refrained from analyzing this phenomenon in greater detail. A full understanding of foreignness however requires specifically emphasizing these local audiences, actors and organizations. In particular, heterogeneity and plurality within the host country population may lead to effects of foreignness that differ considerably from previous assumptions.

2.6 Foreignness From a Different Light: Heterogeneity, Roles, and Organizational Action

My primary aim with the preceding discussion is not to question or challenge the empirical findings of extant scholarship on LOF; research to date has given us valuable insight into the effects of foreignness, and has provided us with strong empirical support for the notion that foreignness can, indeed, be a liability for the MNE. Instead, my point is to suggest that this is not the whole story; the studies reviewed above provide strong indications that foreignness may, in fact, be more than just a disadvantage. An important question that arises is how to reconcile these indications with prevailing theoretical paradigms; in particular, if foreignness and deviance from host country institutionalized practices are not necessarily liabilities, then how do we relate this to the notions of isomorphism and legitimacy that have formed the theoretical basis for much of the extant research on LOF?

Significantly, isomorphism and legitimacy were concepts originally introduced with the foundation of new-institutional theory in the late 1970s (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Tolbert & Zucker, 1983), subsequently adopted by international management scholars during the early 1990s (see for example Ghoshal & Bartlett, 1990; Rosenzweig & Singh, 1991; Westney, 1993; Zaheer, 1995).

While students of the MNE (and the liability of foreignness in particular) have largely continued applying these concepts in their original form, over the past 20 years, new-institutional theory itself has
significantly expanded its focus and theoretical frames (DiMaggio, 1988; Greenwood & Hinings, 1996; Powell & DiMaggio, 1991; Scott, 2001). These developments have introduced aspects of heterogeneity, plurality, and strategic agency in place of strict assumptions of isomorphism and homogeneity. As Kostova et al (2008) have recently suggested, the insights from this research provide a theoretical basis for expanding our understanding of foreignness and its effects.

Foreignness and Institutional Forces: Allowing for Heterogeneity and Plurality

In the preceding sections, I suggested that foreignness leads to internal and external organizational characteristics that set it apart from host country actors, leading to an outsider or alien status. Building upon notions of legitimacy and isomorphism, extant research has assumed that this deviant status has, in turn, negative effects upon the firm due to the lack of conformity, embeddedness, and resulting local assumptions and stereotypes.

Organizational sociologists, however, have increasingly argued that the forces for isomorphism and conformity in institutional environments are not all-powerful. For example, Glynn et al (2000) note that organizational populations are far more heterogeneous than scholars initially assumed; furthermore, they suggest that variety in populations is crucial for understanding the evolution and change of organizational environments (c.f. Dacin, Goodstein & Scott, 2002; Kondra & Hinings, 1998; Powell, 1991).

Royston Greenwood & C.R. Hinings further develop these underlying notions, suggesting organizations ascribe to archetypes, defined as "...interpretive schemes [composed of] ideas, beliefs, and values...that underpin and are embodied in organizational structures and systems..." (1993:1052). They argue, in particular, that archetypes vary both across and within institutional sectors, leading to variance in organizational formats and structures (c.f. Greenwood & Hinings, 1996). Recent research concerning the concept of organizational form in population ecology similarly hints to the fact that organizations can share core organizational traits yet still differ in a wide number of other aspects (Polos, Hannan, & Carroll, 2002). In particular, Dobrev et al. (2006) and Kuilman (2007) show that organizational forms may vary in their level of focus and homogeneity.

A number of scholars provide empirical support for these ideas of heterogeneity and plurality. Greenwood and Hinings (1993) offer
The Paradox of Foreignness

evidence for their notion of variation of archetypes while Goodrick and Salancik (1996) illustrate how organizations are often discretionary in responding to institutional pressures, adopting only a sub-segment of dominant practices. Kondra and Hinings (1998), in turn, show non-isomorphic organizations can, and do, survive within highly institutionalized environments if their adherence to technical requirements produces returns large enough to overshadow institutional deviance.

The emerging research on heterogeneity within organizational populations is important for our analysis of the MNE because it relaxes existing assumptions about foreignness and legitimacy; in particular, it suggests that deviance from host country practices and institutions does not necessarily lead to a lack of legitimacy. From this perspective, the outsider positions that results from foreignness is, therefore, not an a priori liability.

Foreignness as an Organizational Role

The insights also aid in further developing our understanding of foreignness because they hint at the notion that with heterogeneity and plurality comes variations in organizational pressures, norms, and expectations. For example, Richard Scott notes that this is the case even in highly institutionalized environments:

"Some values and norms are applicable to all members of the collectivity; others apply only to selected types of actors or positions. The latter give rise to roles: conceptions of appropriate goals and activities for particular individuals or specified social positions." (2001:55, original emphasis)

Scott's definition of roles bears a likeness to Greenwood and Hinings' (1993) archetypes, as well as population ecology's notion of organizational form. Moreover, all three of these concepts suggest divergence from institutionalized norms is not only discretionary and random; it may also be linked to a fundamental difference in the underlying identity and image of the organization within the institutional environment. Furthermore, these archetype, role or form-specific traits are evident both in the internal behaviors and practices of the organizations, as well as in the external perceptions and assumptions of surrounding actors (Greenwood & Hinings 1996; Polos et al., 2002).

Applying these insights to the MNE subsidiary in host country environments raises the question of whether foreignness might indicate a
specific role or archetype of its own. In particular, it suggests that foreignness might be associated with normative pressures and requirements that differ from those of local actors. Scholars in institutional theory have, indeed, hinted at this; for example, Kostova and Roth (2002) suggest that foreignness might be a “buffer” that shields the MNE subsidiary from demands from the host country environment. Kostova et al, in turn, argue: “MNCs might be viewed as belonging to a different class altogether because of their foreignness and, as a result, may be excluded from local isomorphic pressures.” (Kostova et al, 2008: 999).

There is also empirical evidence that support these claims. Kostova and Roth (2002) find that host country regulative and normative institutions had no effect on the ability of an MNE subsidiary to successfully adopt strategic organizational practices and routines inherited from the host country, despite the fact that these differed from those of local actors. In other words, MNE subsidiaries were able to introduce deviant practices without recriminations from local actors. In their study of MNE subunits’ strategies for mitigating the liability of foreignness in China, Luo, Shenkar & Nyaw find that domestic firms altered their expectations when dealing with the foreign entrants. They note:

“Chinese firms tend to attach a greater importance to contractual clauses when dealing with foreign companies than when dealing with local firms... Most Chinese companies realize that conventional Chinese approaches cannot completely apply to transactions with foreign businesses.” (2002:290)

The theoretical and empirical findings above indicate that foreignness may result in expectations that differ considerably from those applied to local actors. Moreover, they also suggest this effect may be systematic and population-based. In other words, the expectations are not firm or home-country specific; rather, they apply to all organizations that are not domestic entities. Foreignness can, therefore, be thought of as a population-level source of differentiation.

Foreignness and Organizational Action in Institutional Environments

Conceptualizing foreignness as a specific role or identity is important not only as a population-level classification scheme; it also provides a theoretical framework for understanding and analyzing organizational
actions, both on the part of MNE subsidiaries and host country actors. As I argued in section 2.5, organizational actions are indeed central to understanding the core effects of foreignness.

By organizational action I mean "purposive, interest-driven behavior" (DiMaggio, 1988:5): i.e. any activity undertaken by organizations as a result of specific strategies and decision-making by management or other organizational members. In early formulations of new institutional theory, these activities were seen as tightly constrained by coercive, normative, and mimetic processes for isomorphism (DiMaggio & Powell, 1983). Scholars hence placed little emphasis on the ability of organizations to strategize or take purposive actions beyond the bars of this iron cage (Boxenbaum & Jonsson, 2008).

The notion that environments constrain organizational action was subsequently adopted by international management scholars, acutely aware of the coercive power of host country governments on MNE subsidiaries (c.f. Westney, 1993). Rosenzweig and Singh (1999) emphasized how host country institutional pressures for isomorphism hamper the ability of MNE subsidiaries to integrate with parent organizations (see also Kostova & Roth 2002). The overarching emphasis in these studies has thus been upon the constraining role of institutional settings.

Since the late 1980s, however, purposive action and strategic agency have become increasingly important focus points among institutional theorists (c.f. Beckert, 1999; DiMaggio, 1988; Oliver, 1991; Scott & Christensen, 1997). In a highly influential contribution, DiMaggio (1988) argues that interest and agency are inherent to institutions because they explain not only why institutional arrangements endure; they also display how they evolve and change. In other words, organizational action may support and reinforce reigning institutions; however, they may also challenge them. Oliver (1991) further develops these ideas, suggesting that organizational actions in institutional settings include not only isomorphic acquiescence, compromise and avoidance, but also overt defiance and manipulation.

The inter-relationship between external institutions and organizational actions is also mirrored in recent works by strategic management scholars (Barnett, Greve & Park, 1993; Barney & Zajac, 1994). These researchers have emphasized in particular that organizational actions, behaviors and strategies are not formulated in vacuums but arise through interaction with the societal and
institutional environment (Rao, 1994; Regné, 2008, 2009; Whittington et al., 2006). The actions, behaviors and strategies adopted by organizations are hence contingent on their social context (Regné and Zander, 2008).

In line with these various bodies of work, the last decade has witnessed a plethora of studies investigating how organizations take purposive action in institutional settings (see for example Jonsson, 2002; Jonsson & Regné, 2009; Leblebici et al., 1991; Palmer & Barber, 2001; Rao et al., 2003; Zucker & Darby, 1997). While these studies differ widely in their theoretical and methodological approaches, a common sub-theme addressed by all is why some actors are able to take specific actions, while others are not. In particular, a number of scholars have investigated the propensity of different organizational types’ to take norm-breaking or defiant organizational actions that challenge institutionalized practices.

Several studies suggest that the ability to take divergent action depends crucially upon the organization’s position or role in the external environment. The ability to challenge and break institutionalized norms, strategies, and behaviors has, for example, been linked to organizational reputation (Leblebici et al., 1991), social status (Phillips & Zuckerman, 2001; Rao et al., 2003; Zucker & Darby, 1997), network position (Palmer & Barber, 2001), and a combination of these (Ahmadjian & Robinson, 2001).

In particular, these characteristics serve to moderate and mitigate the external environment’s pressure for isomorphism, acting as filters or prisms that alter the nature of institutional demands upon the organization. In turn, a number of studies have also found that action depends upon internal organizational aspects, including specific capabilities (Rao, et al., 2003; Zucker & Darby, 1997), resources (Leblebici et al, 1991), and ownership structures (Ahmadjian & Robinson, 2001). The crucial point to be made, therefore, is that the nature of actions, as well as the propensity to act upon specific interests, depends crucially upon both the organization’s internal characteristics and its external role and position in the institutional environment (DiMaggio, 1988; Greenwood & Hinings, 1996).

Combining these insights with the discussions of heterogeneity and roles from the previous section raises an important question with regard to the MNE subsidiary: if foreignness results in a role or archetype that differs from domestic organizations - both in terms of external status and network position - as well as internal capabilities
and practices, how might this affect the types of actions, behaviors, and strategies that MNE subsidiaries can adopt in host country institutional environments?

On the one hand, foreignness might heighten the propensity for isomorphism, while simultaneously precluding actions that defy and manipulate local institutions. As organizations characterized by a lack of embeddedness, deviant practices, weak local knowledge, and stereotypical assumptions on the part of host country actors, MNE subsidiaries face heightened levels of uncertainty and illegitimacy (Eden & Miller, 2004; Rosenzweig & Singh, 1991). Kostova & Zaheer (1999) suggest that foreignness may lead to standards and expectations that are stricter than those imposed upon local actors, thereby, heightening pressures for isomorphism and conformist behavior. From this perspective, overt attempts at actively deviating from institutionalized practices would presumably lead to further illegitimacy and, hence, reduce the chances of survival (c.f. Zaheer & Mosakowski, 1997). As a result, we might expect foreignness to preclude norm-breaking or institutionally deviant action.

On the other hand, foreignness might also enable defiant practices precisely because it gives rise to “conceptions of appropriate goals and activities” that are applicable only to foreign members of the organizational collective (Scott, 2001). Foreignness might also enable norm-deviant or confrontational strategic action because it leads to a lack of embeddedness and, hence, de-couples the organization from existing pressures for conformity and isomorphism (c.f. Kostova et al., 2008).

Although international business scholars have adopted traditional institutional concepts such as isomorphism and legitimacy in their discussion of foreignness, they have to date largely failed to include action and agency in the analysis. However, linking organizational action in institutional environments with foreignness is crucial because it offers a framework for understanding how foreignness impacts the organization. Rather than focus exclusively upon end effects such as profitability or efficiency, an emphasis upon action illuminates the underlying mechanisms involved in achieving these ends.
2.7 Specifying the Research Focus and Framework

The review and analysis of the preceding sections has sought to expand the extant approach to foreignness. In particular, by linking unanswered questions and empirical results to recent findings in organizational theory, I have argued that the *a priori* emphasis upon the *liabilities* of foreignness should be broadened to focus instead upon the *effects* of foreignness, both positive and negative. The point is, therefore, not to utilize existing research on LOF as a straw man; indeed, this line of inquiry has deepened our understanding of foreignness by providing both rigorous empirical results and insightful commentary. My argument instead is that the effects of foreignness may be inherently more complex. Central to this line of reasoning is the notion that foreignness itself can be seen as a source of differentiation, potentially leading to specific roles or archetypes, as opposed to simply alien and outsider status positions. These roles and archetypes may both enable and disable various actions that underlie the specific effects of being foreign.

**Research Questions: Foreignness, Effects, and Action**

The above discussion also raises some important research questions. First and foremost, what exactly are the effects of foreignness? In particular, might it have specific benefits and advantages to the MNE subsidiary? The possible advantages that stem from foreignness are especially important to investigate because they would provide the strongest empirical evidence for the notion that there are indeed two sides of the coin to being foreign.

Secondly, if foreignness does in fact result in effects other than liabilities, how and why do these occur? In particular, how and why does foreignness impact organizational action (i.e. the specific behaviors of MNE subsidiaries)? Moreover, what is the interplay between action and the specific internal and external organizational traits that result from foreignness? These questions are important because it is ultimately organizational actions and behavior that subsequently impact survival, efficiency, and profitability.

Finally, how do we reconcile the effects of foreignness with the empirical results indicating that foreignness is a liability? The above discussion suggests that foreignness may have both positive and negative effects; understanding the impact of being foreign requires
reconciling and linking these two opposing outcomes. Therefore, the central research questions of this dissertation can be stated as follows:

RQ1: Can foreignness be an advantage for the MNE subsidiary when undertaking organizational action in host country environments?

RQ2: If so, how and why? What are the mechanisms involved?

RQ3: How do these effects relate to the liabilities of foreignness?

Based upon these questions, the overall purpose of this dissertation is to investigate the effects of foreignness. I do this by exploring the internal and external organizational traits that result from being foreign, as well as their linkage to organizational actions, as shown in Figure 2-2 below.

Figure 2-2: The Effects of Foreignness

The general research questions as identified above provide a first glance at the research framework of the dissertation, yet it remains broad. In the concluding sections of this chapter I thus provide a more specific research framework, discussing in particular my underlying definition of foreignness (the independent variable) and organizational action (the dependent variable).
Chapter 2

Conceptualizing Foreignness: a Perception-Based Exclusionary Definition

As aforementioned, international management research has yet to offer a thorough conceptualization of foreignness; it is, indeed, a notion that is extremely difficult to define and pinpoint. Nevertheless, an exploration of the above research questions requires some measure of conceptualization and delimitation.

A unifying theme within existing studies is that, above all, foreignness signals dissimilarity, heterogeneity, and outsider status (Brannen, 2004; Eden & Miller, 2004; Hennart, 1982; Luo & Mezias, 2002). Dissimilarity and heterogeneity, however, are in and of themselves not sufficient conditions for foreignness; domestic organizations may, for example, significantly depart from locally institutionalized practices and be subsequently regarded as radical outliers or illegitimate entities, yet this does not make them foreign per se (c.f. Leblebici, et al., 1991). Conversely, foreign-owned MNE subsidiaries may adapt their internal practices and behavior to host country norms and become firmly embedded in the local environment, but this will not necessarily enable them to shed their foreign identity (c.f. Hymer, 1960/76; Zaheer & Mosakowski, 1997). Foreignness is thus not to be equated with a lack of isomorphism or non-conformity.

Instead, the necessary condition for foreignness is that the organization is perceived as a non-domestic entity. Foreign firms are hence those viewed as outsiders not only due to their internal make-up or external position, but also because they are identified with another country, culture, or region.

Two important insights can be drawn from this definition. The first is that foreignness and its effects depend upon audience perceptions. Perceptions inform negative stereotypes and assumptions, resulting in discrimination and a lack of legitimacy in the host country (c.f. Kostova & Zaheer, 1999). At the same time, audience perceptions also establish the norms, expectations, and boundaries that apply to the foreign firm and its subsequent ability to take specific actions (c.f. Polos et al., 2002). Foreignness is, hence, an identity or image that is socially constructed by audiences (c.f. Li et al., 2007)\(^2\).

\(^2\) It should be noted that a perceptions-based definition of foreignness is primarily suitable when investigating foreignness as a sociological phenomenon (Zaheer, 2002). Investigating the nature of other extra-ordinary effects of doing business abroad, including for example home country regulations, exchange rate fluctuations or geographical distance would by contrast benefit from defining foreignness in terms of headquarter location or majority ownership.
The Paradox of Foreignness

Conceptualizing foreignness as driven primarily by audience perception is advantageous because it offers a more accurate classification of organizations. In Sweden, for example, Volvo is widely perceived as a Swedish car manufacturer, even though wholly owned by Ford of the United States. Using the above definition, Volvo would be seen as non-foreign in Sweden; conversely, Volvo might be seen as foreign in the United States, even though an American firm owns it. Adopting a perceptions-based definition of foreignness is also advantageous because it offers flexibility; one might imagine that depending upon local perception, Volvo is viewed as non-foreign in both Sweden and the United States.

A second important point concerns the way in which audiences assign the identity of being foreign. Specifically, foreignness is defined relative to local actors; in other words, individual organizations are evaluated as foreign not due to their specific traits and practices as such, but because they are associated with a home country other than that of local actors. An important point to stress here is that the designation of foreignness is applied uniformly regardless of the country of origin. In other words, French, Brazilian, Malaysian, and Danish subsidiaries located in the United States are all classified as foreign, despite the fact that they may differ considerably from each other on a wide range of measures. From this perspective, foreignness can be seen as an exclusionary definition, i.e. it defines what the organization is not, rather than what it is; therefore, a foreign firm is one that is not domestic.

Since it explicitly does not differentiate between home countries, an exclusionary conceptualization of foreignness differs from many recent studies on LOF that define foreignness as a function of cultural, institutional, and regulatory distances between home and host countries (c.f. Kostova 1997; Eden & Miller 2004). While it is important in its own right, I suggest that this conceptualization measures degrees of foreignness as opposed to underlying effects, per se.

To see why, consider the hypothetical case of two foreign bank subsidiaries in Tokyo, operated by a German bank and a South Korean bank, respectively. Since they are from countries other than Japan, both subsidiaries will be characterized as foreign in the eyes of local audiences. However, due to differences in each home country's proximity to Japan, the level of foreignness will presumably vary between the German and Korean banks. For example, the South Korean bank may exhibit less foreignness than the European bank,
thanks to greater similarities between Korean and Japanese institutional settings, cultures, and regulations. If both banks have sister subsidiaries operating out of France, the reverse would presumably be true: the German bank would be less foreign than the Korean entity, yet it would still be foreign.

Studies that operationalize foreignness as a determinant of various distance measures, hence, run the risk of measuring *degrees* of foreignness, as opposed to actual underlying effects. While this operationalization is motivated in deductive studies that build upon *a priori* assumptions of the effects of foreignness; this investigation, by contrast, seeks to pick apart the effects themselves. As a result, I am less interested in the *degree* of foreignness than I am in its underlying consequences.

**Motivations for an Exclusionary Definition**

Defining foreignness as an exclusionary characteristic and, thereby, differentiating it from country-of-origin effects is important for several reasons. To begin with, scholars have suggested foreignness is a characteristic of all MNE subsidiaries, regardless of location or origin (c.f. Hymer, 1960/76; Zaheer & Mosakowski, 1997). As a result, a central aim in the study of foreignness must be to identify mechanisms and processes that potentially impact all subunits. Including home country effects in the equation, however, reduces these elements to contingency-specific scenarios – as a result, findings may not be generalizable. In their study of U.S. suppliers in Mexico, Insch & Miller (2005) suggest that foreignness may be an advantage because it leads to positive assumptions and attributions by local actors. However, is this an effect of being foreign, or an effect of being a firm from the United States? Would Japanese, Nigerian, or Polish firms have the same benefits? Similarly, while French wines are viewed positively in Japan, this is presumably an advantage of being French, as opposed to an advantage of being foreign and non-Japanese (Swedish wines would presumably sell less well in Japan).

Secondly, defining foreignness as an exclusionary factor allows us to consider MNE subsidiaries as a group. If we operationalize foreignness in terms of specific country of origin, the ability to generalize about MNE subsidiaries at large is limited. As a hypothetical example, the HRM practices of GE, Sony, and Arcelor Mittal's subsidiaries in Shanghai may all be considered foreign in relation to
The Paradox of Foreignness

local Chinese practices; however, this does not necessarily mean that they possess any great within-group similarity. Indeed, the dissimilarity between GE of the United States, Japan’s Sony and the Indian steel-maker Arcelor Mittal may be even greater than the disparity between each individual company’s practices and those adopted by local Chinese organizations. Conceptualizing foreignness as an exclusionary definition hence allows us to raise the level of theory building above country-of-origin factor, thereby encompassing all MNE subunits.

Defining foreignness as an exclusionary characteristic further creates a more appropriate link to the new-institutional theoretical framework that several scholars have used to analyze foreignness. In focusing upon organizational isomorphism and legitimacy, new-institutional theory is specifically concerned with the extent to which organizations adapt to their local environments and organizational fields (DiMaggio & Powell, 1983). Organizations that fail to adapt to local pressures for isomorphism are, in turn, considered illegitimate or fringe, regardless of the exact norms, values, or structures they choose to adopt instead. Fringe or non-conformist actors may, thus, be either low-status or high-status (Leblebici et al., 1991; Phillips & Zuckerman, 2001; Rao et al., 2003); the crucial point here is that they differentiate themselves from the dominant institutional practices.

It should be emphasized that research on country-of-origin effects is fruitful and important; most people would agree that, just as nationality matters for individuals, it also plays a crucial role on the organizational level. By separating these effects from a study of foreignness, however, the inquiry becomes more focused and specific in nature; it pushes us to explore and identify those specific mechanisms, as well as internal and external organizational traits that arise specifically as a result of being an outsider and different regardless of country of origin.

Finally, a drawback of the exclusionary definition to foreignness is that it lacks depth and may appear to be overly simplistic. As noted previously, however, this weakness prevails among the majority of existing research, since foreignness itself remains largely unexplored and black-boxed. An exclusionary definition is thus not only in line with pre-existing theoretical approaches in both international business and new-institutional theory, it also sets the stage for subsequent refinement as part of the study’s analysis. Based on the empirical findings of the study, Chapter 9 hence offers a more in-depth
discussion of the attributes and attributions associated with foreignness, refining the initial conceptualization discussed here.

Conceptualizing Action: A Focus on Norm-Breaking

In addition to defining foreignness, an empirical investigation into the questions outlined above requires a more specific definition of the type of organizational actions to be studied. As noted previously, organizational actions are behaviors driven by explicit agency and interest on the part of the firm. Organizational action is hence not only routines, practices or day-to-day activities; it also includes strategic behavior, based upon calculated and explicit intent on the part of managers. This might encompass, for example, changes in organizational structure, acquisitions of other firms, the introduction of new products, etc. A crucial question, therefore, is what kind of organizational action the study will focus on.

As defined above, foreignness is an organizational phenomenon (Zaheer, 2002) i.e. it relates to MNE subsidiaries' positions, relationships, and linkages to host country institutional environments. Therefore, the actions I seek to explore are those that specifically result because of these unique positions, relationships, and linkages. Understanding how foreignness differentiates the MNE subsidiary from local actors, thus, requires an investigation into actions that depend upon institutional effects. The focus is not upon firm-specific capabilities or practices inherited from the home country; rather, it is on opportunities or constraints in behavior that arise specifically from being a foreign outsider.

Institutional effects are, of course, evident in almost any organizational endeavor, ranging from the routines by which members answer telephone calls and their attire, to the way in which they analyze and understand the external market. For the vast majority of these actions, the effects are, moreover, invisible. In other words, it is nearly impossible to observe and define them because they are tacit and taken-for-granted in nature. Schneiberg and Clemens (2006) suggest that institutional effects and processes can only be observed during periods of upheaval and transformation; in these episodes, the constraining and enabling effects of institutional environments become readily evident against a backdrop of shifting norms, behaviors, and logics.
Building upon this argument, the effects of foreignness are visible only when institutional norms are breached and challenged. As noted above, the ability to undertake norm-breaking action may significantly be affected by the outsider and alien role of MNE subsidiaries in host countries; I hence endeavor to explore how and why foreignness impacts norm-breaking actions by MNE subsidiaries.

Norms are of course ubiquitous throughout institutionalized environments, hence deviating from them may not always necessarily lead to the institutional effects and responses I seek to explore. As a result, the study specifically focuses on norm-breaking radical action which significantly challenges established values, beliefs and behaviors. The notion of radical action is taken from Greenwood and Hinings (1996) who make a distinction between radical and convergent strategic change. They suggest that radical change is “frame-busting” or “re-orienting”, i.e. it fundamentally challenges many of the structures, strategies, and assumptions that prevail in the organization, as well as the overall environment. In contrast, convergent change insinuates activities that refine existing institutionalized patterns of behavior, but which do not necessarily defy or deviate from underlying norms and beliefs (c.f. Oliver 1991). Radical strategic action, therefore, implies activities, strategies, or behaviors that actively counter and challenge reigning institutional frameworks.

Significantly, radical strategic action is of interest not only for methodological reasons; it also has clear connections to the profitability and survival of MNE subunits in host countries. As previously discussed, foreign firms entering new markets often introduce novel technologies, routines, and practices that underpin their competitive advantage in the market. Since these innovations are inherited from the home country, they frequently deviate from taken-for-granted behaviors and strategies in use by local actors. This might especially be the case in knowledge-intensive or service-oriented industries where tacit norms, values, and beliefs play a strong role in forming firm behavior. Because of these clashing institutional logics, the ability to introduce and gain acceptance for a novel innovation is fundamental to the MNE subsidiary’s survival and competitiveness in the local market.

From this perspective, insights into how foreignness impacts the ability to undertake radical norm breaking actions are important in evaluating the competitive advantage and survival of the MNE sub-
subsidiary. Moreover, it is not only introduction that is important; competitive advantage also depends on the longer-term sustainability of the action. MNEs may introduce radical new innovations and practices regularly, but unless these gain traction and become legitimized in their own right, the action can hardly be seen as a success.

**Linking Foreignness and Norm-Breaking: a Research Framework**

Deviating from and actively challenging reigning institutions is, of course, fraught with difficulties because organizations are essentially promoting practices that may lack cognitive, normative, and even regulative support. In particular, organizations may face opposition if the new practice is opposed by powerful internal groups (Jonsson, 2008; Lounsbury & Leblebici, 2004; Macmillan, McCaffery, & Van Wijk, 1985; Palmer & Barber, 2001). The level of internal opposition, in turn, depends upon the existing structures and routines, as well as organizational dynamics (Greenwood & Hinings, 1996; Sherer & Lee, 2002). Jonsson and Regnér (2009), for example, argue that differences in adoption of new products in the mutual fund industry were directly related to the political power and number of financial professionals working at each firm.

Adoption however, may also be constrained by threats of sanctions from the external environment (Scott, 2001). Customers, suppliers, and competitors who view the innovation as illegitimate may punish the firm in various ways, including limiting its access to important input and output markets. As a result, even when firms are able to introduce a new practice in terms of capabilities or skills, they may not be willing to do so for fear of negative sanctions (Jonsson & Regnér, 2009). Notably, the nature and level of these external constraints appears to depend on the organization's role or position in the local environment. As noted earlier, scholars have for example found that external sanctions on radical action vary by status, reputation and network embeddedness (Leblebici et al., 1991; Palmer & Barber, 2001; Phillips & Zuckerman, 2001).

Organizations introducing radical norm-breaking actions thus often face significant barriers to adoption, both internally and externally. The nature and level of these barriers depend both on the internal capabilities, routines and structures of the organization, as well as its external image, reputation and network position.
In order to overcome these constraints, organizations in turn adopt specific implementation strategies, both internally and externally. These include for example legitimization strategies (Hargadon & Douglas, 2001), linkages to external actors (Casile & Davis-Blake, 2002) and conformity to existing norms and market signals (Glynn & Abzug, 2002; Lee & Pennings, 2002). Notably, the nature and type of implementation strategies depend on the specific constraints and barriers faced in taking the norm-breaking action.

These insights can in turn be linked to the previous discussions on foreignness to produce a research framework as presented below in Figure 2-3. As the figure shows, the research framework calls for investigating how the internal and external organizational characteristics of foreignness impact the barriers to adoption faced by MNE subsidiaries when introducing radical strategic action, as well as the internal and external strategies they undertake to overcome these constraints. In particular, the study seeks to explore the process and mechanisms by which organizational traits associated with foreignness impact the ability to both introduce and sustain a norm-breaking innovation in the host country institutional environment.

Figure 2-3: The Research Framework
Chapter 3

Peeking Into the Black Box: A Report From Three Pilot Studies

In the previous chapter, I defined the overarching research questions as well as the research framework of this study. However, these questions and the subsequent framework are exploratory in nature; as I noted, extant literature has largely failed to investigate the specific effects of foreignness in greater detail. An initial challenge of the study therefore, is to evaluate the validity of the research framework and the derived questions. In other words, is it important to investigate foreignness?

To do this I conducted three initial pilot studies which are summarized and analyzed in the current chapter. Since the dissertation focuses specifically on the impact of foreignness on norm-breaking action, the central aim of these pilot case studies has been to explore different instances where foreign firms introduced new strategies, actions, or practices into the local context. By doing so, I hoped to sharpen some of the constructs and questions initially developed in the theory chapter, as well as gain a better understanding of what methodology and research design would be suitable for the larger empirical investigation.

The pilot studies cover three separate actions: the introduction of variable annuities in life insurance, the transfer of U.S. and European mergers and acquisition advisory services by foreign investment banks, and the launch of zero-fee ATMs in the retail banking sector. Each of
these actions constituted a break with existing practices and behaviors. At the same time, they differ in their level of maturity and development, commensurate skill level, and local competitor reactions. Table 3-1 below provides a descriptive outline of the three pilot studies.

Table 3-1: Outline of the Pilot Studies

<table>
<thead>
<tr>
<th>Pilot study</th>
<th>Subject</th>
<th>Number of firms investigated</th>
<th>Number of interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable annuities</td>
<td>Introduction of norm-deviant insurance product and distribution practice</td>
<td>3 Foreign, 2 Japanese</td>
<td>5 foreign, 3 Japanese</td>
</tr>
<tr>
<td>Mergers and Acquisitions</td>
<td>Introduction and competition in novel financial practice</td>
<td>2 Foreign, 1 Japanese</td>
<td>5 Foreign, 4 Japanese</td>
</tr>
<tr>
<td>Zero-fee ATMs</td>
<td>Introduction of new consumer finance service</td>
<td>1 Japanese</td>
<td>2 Japanese</td>
</tr>
</tbody>
</table>

By investigating each of these cases, I gained a number of insights that were subsequently used to guide the method and research design (see Chapter 4). To begin with, the cases indicate that any influences of foreignness must be de-coupled from firm-specific effects owing to superior capabilities, skills, and knowledge. This finding is largely in line with the theoretical discussion of the previous chapters and the emphasis on foreignness as an exclusionary definition. Secondly, because foreignness varies across organizations, case selection is of vital importance. Third, the pilot study findings also point to the importance of temporal effects; foreignness and its impact on firm action vary over time and context. Lastly, the findings explicate the importance of determining an appropriate level and unit of analysis; foreignness is a multi-dimensional concept, interpreted and impacted in different ways, by different actors.

3.1 Methodology

In order to identify suitable cases and organizations for the pilot studies, I adopted a snowball sampling approach; this involved asking friends, colleagues, and former co-workers broad questions about foreign firms and innovative activity in Japan. As my aim at this stage
was exploratory, these interviews were akin to general discussions without detailed format or questions. The interviews, however, centrally concerned the extent to which: 1) foreign firms had introduced novel practices, innovations or behaviors into the industry; 2) domestic firm reactions to these innovations; and, 3) the extent to which foreign firms may have been able to act differently specifically due to their foreignness.

At the end of each interview, I asked respondents if they could introduce me to others who might be interesting to speak with. Through this process, I eventually came to interview 38 different individuals, working for both foreign and Japanese corporations, in 10 different industries. I sought to identify a subset of innovations or actions suitable for initial pilot studies based upon the data accumulated from the interviews. In selecting these innovations, I operated on three criteria derived from the theoretical discussion.

To begin with I wanted to isolate effects of foreignness; hence, I sought to investigate practices where foreign and domestic firms did not exhibit major differences in capabilities or skills, or where these skills played minor roles in explaining adoption or introduction patterns. Secondly, I sought to interview foreign organizations with varying degrees of foreignness; at this stage, this meant talking to firms that with different levels of experience and knowledge of Japan. By introducing variance in foreignness, I sought to explore whether age and temporal learning factors might be important factors to consider. Lastly, I also sought to select cases where the degree of adoption and implementation varied; in other words, I wanted to look at newly emergent cases as well as more mature products in order to contrast both of these.

Based upon these criteria, I identified three innovations and practices introduced by foreign firms that were of particular interest: variable annuities in life insurance, mergers and acquisition advisory services in investment banking, and zero-fee ATMs in retail banking. I subsequently returned to the interviewees in these areas, asking both foreign and domestic companies to describe their experiences and strategies in introducing the novel innovations.

These subsequent interviews were semi-structured; while I included some questions specifically geared towards foreignness and disadvantages/advantages of being foreign, I purposely also tried to keep the discussion open-ended, pursuing new ideas and stories as they emerged. I augmented the interview data with archival sources
such as annual reports, analyst research, newspaper clippings, and quantitative data. These various data sources were combined to form the core of the case histories.

The interviews were undertaken in increments over a 2-year period, starting in the summer of 2005 and ending in May of 2007. I interviewed a total of 45 individuals from 35 different firms, as well as regulatory agencies, consultancies, and think tanks. Of these, the pilot case studies are comprised of 19 interviews at 9 companies.

* * *

The following sections present the empirical findings from the three pilot studies. In summarizing the studies, I have purposely sought to keep them relatively short, focusing in particular upon aspects that were central to the subsequent development of the research design and methods. The section is followed by an analysis of the findings and concluding remarks.

3.2 Pilot Study 1: Variable Annuities

Variable annuities are investment-oriented life insurance products, similar in structure to mutual funds. While virtually non-existent in Japan until the late 1990s, the variable annuities market grew tremendously from 2000 onward, becoming an 8 trillion JPY market by 2006.

One of the early innovators in the variable annuities market was The Hartford Group, a U.S. firm specializing in retail financial services, including investment, savings, and life insurance. Hartford entered Japan in 1999 with the specific goal of promoting variable annuities; the company had the leading market share of the product in the United States and had done particularly well with older customers. Reasoning that demographic shifts and deregulation made Japan a prime market for annuities, Hartford decided to set up a wholly-owned subsidiary in Japan in 1999.

Challenges Faced by Hartford

In introducing its new practice, Hartford faced a number of obstacles. To begin with, Hartford's competitive advantage and success in variable annuities depended upon its position as a wholesale dis-
tributor, connecting independent retail sales agents (also known as independent financial advisors or IFAs) with fund managers and investment professionals. As both the sales and asset-management function lay outside the company, Hartford acted primarily as a middleman, bundling the product. In Japan, however, both distribution and asset management were done in-house; there were few, if any, independent external retail agents (IFAs) with which to link.

Secondly, as an investment-oriented product, variable annuities differed considerably from traditional Japanese notions of life insurance. Life insurance in Japan was seen as safety-oriented, stable and often in stark contrast to risky financial products such as mutual funds or investment trusts. Life insurance companies themselves were predominantly mutual companies, as opposed to stock market companies. As a result, the Japanese life insurance industry viewed variable annuities and other investment-linked vehicles with considerable suspicion. The head of the Japanese life insurance association even wrote to its U.S. counterpart complaining: “Life insurance companies should not get involved in investment products.”

**Hartford’s Strategy**

Rather than adapt its strategies to fit the norms and practices of the local market, Hartford went ahead with its original U.S. business model, tying up with securities companies to sell variable annuities. Securities companies had never before sold life insurance products in Japan, hence this was a completely new idea. Moreover, because Hartford was an unknown entity, securities companies were initially uncertain of working with the firm; in particular, the large securities companies were especially skeptical of working with Hartford. To overcome this, the company approached firms that had previous experience of foreign entities and, thus, were more accustomed to alternative products. As a manager at Hartford pointed out, the company’s first partner, Nikko Cordial, was a perfect example of this:

“For various reasons, Nikko Cordial has a lot of foreign company tie-ups and capital relationships with Citigroup...so they were more open to foreign companies, in general.”

Hartford’s initial tie-up with Nikko Cordial turned out to be very successful as sales of variable annuities far exceeded expectations. Regulators, in turn, began to take notice and Hartford suggested
existing regulations should be changed, allowing banks to sell life
insurance and variable annuities as well. The Japanese life insurance
industry reacted angrily to this; in an official comment to regulators,
the industry association noted:

"The purpose of the insurance industry is to provide for the safety and
security of the nation's population. A system whereby investment-oriented
products are sold through anonymous banks risks seriously undermining
these values."

Despite these objections, however, regulators eventually allowed banks
to begin selling variable annuities in 2002. Thanks to its initial success
with Nikko, Hartford had raised its status in the local market and
banks had begun to take notice of the firm. At the same time, however,
it continued to face obstacles, specifically due to its outsider position.
One of the managers explained:

"When we approached many of the banks, they wanted to sell our products,
but they had difficulty tying up with us because of their previous
relationships. They had to go to their traditional allies first before they could
talk to us."

At the same time, however, the firm's outsider position and the
disadvantages it faced also led to specific expectations from local
banks. The manager at Hartford further noted:

"Generally banks and securities companies expect the foreign firms to have
more innovative products that are better value for customers because they
know foreign companies are at a disadvantage. We don't have capital ties
here, we don't have distribution channels tied up, we're fighting for
everything, we have to work harder, and we can't be complacent. And they
know this."

Starting in 2002, Hartford gradually began to tie-up with local banks.
The firm started with organizations that had previous experience of
working with foreign firms and subsequently worked itself upwards in
the status hierarchy. Often times, it was able to benefit from
association with other local actors - in particular Nikko-Cordial - to
convince local distributors of the value of tie-ups. By 2005, the variable
annuities market had grown to 8 trillion JPY. Hartford had emerged as
the market leader with a 30% market share.
Domestic Firm Reactions

As previously noted, the Japanese life insurance industry was initially highly critical of Hartford life and, in particular, of variable annuities. Many of the industry's participants felt the novel product defied the notions of the safety-oriented life insurance industry. One interviewee from a major Japanese life insurer noted:

“Hartford’s products are too risky...that’s their problem. You can’t sell life insurance like that.”

Moreover, the objections stemmed not only from the product itself, but also from the distribution format. As the quote above from the Japanese Life Insurance Association suggests, banks and securities companies were seen as industries completely separate from that of life insurance. Under the traditional Japanese distribution system, whereby large armies of housewives and young college graduates sold life insurance products to friends, families and neighbors, trust was a crucial part of the sale. To buy a product as important as life insurance from someone you didn’t know personally appeared both irrational and irresponsible. As one interview noted:

“That style of doing things doesn’t work here in Japan, it’s not how this market functions.”

Despite these objections, however, Japanese life insurers gradually began to adopt variable annuities into their product portfolios. Moreover, many of them began selling these and other life insurance products through banks once the industry was deregulated in 2002.

While these changes appeared to signal change and greater acceptance of the novel products, many of the Japanese firms also continued to rely on traditional practices and strategies, with only limited effort aimed at adopting the foreign practices. Indeed, as one interviewee noted:

“We will continue to use our housewife sales force; that will not change. This is our core competence and Hartford’s strategies are not suitable for us; they are more for foreign companies.”

Domestic Japanese firms were, therefore, not interested in adopting variable annuities both due to the product’s investment-oriented
nature, as well as the underlying distribution system. In one sense, their reactions can be put down to a lack of fit between existing norms and expectations: safety versus risk-based investment and external distribution versus trusted in-house sales.

At the same time, however, the roots of opposition can also be found in firm-specific capabilities and assets. To begin with, variable annuities are highly complex products, requiring significant financial forecasting and analysis; hence, successful competition in variable annuities requires a high degree of knowledge and technical capabilities that were not always available for the domestically oriented Japanese life insurance companies. Secondly, although distribution through banks could serve to lower costs for life insurers, it would also potentially cannibalize sales by the large in-house sales teams. These were politically powerful within the organization as CEOs often had various backgrounds in sales management. This resulted in significant opposition to the introduction of sales through banks.

Therefore, the lack of adoption of variable annuities can be understood not only in terms of overall industry-culture; it can also be comprehended in terms of organizational capabilities, assets, and resources - both economic and political. As one manager of one foreign life insurer noted:

"... the insurance companies here, the domestics... when the banks were deregulated... they were fighting, resisting, lobbying to not allow the banks to be deregulated... it's a political problem for them. [In addition]...[the insurance companies] don't have the knowledge, they don't have the technology to develop [variable annuities]."

Conclusion

Hartford Life was not the only foreign life insurer to enter the variable annuities market. After 1999, a number of non-domestic actors expanded into this area. While they stemmed from various countries, including Sweden, Canada, Holland and the United States, a common factor was their focus on alternative distribution strategies. As one life insurance analyst at a major investment bank pointed out in an interview, the foreign life insurers in particular dominated new distribution formats; these included direct sales through the internet and telephone, as well as sales through independent financial advisors at securities companies and banks.
Separating foreign firms and domestic actors in this way was not limited to analysts; as the quotes above indicate, managers at both domestic and non-domestic firms echoed this sentiment. Foreign firms were seen as introducing new non-traditional practices; depending upon one’s point of view, these were either seen as innovative and positive, or mistakes that were doomed to fail. As a result, foreign and domestic firms largely ignored each other in their competitive attention and strategizing. For example, the CEO of a Canadian life insurer noted:

“When I look at who we compete with...they’re all foreign. The Japanese companies... most of them, I don’t even think they know we exist...”

A Japanese manager similarly noted:

“Nissay [Nippon Life, the top Japanese life insurer] basically ignores the foreign firms; they only look at the other domestic competitors. That’s what matters for them...”

Foreignness, hence, served as a dividing line. Yet it also signaled a specific type of firm: one with particular expectations. A number of foreign firms entering Japan in the late 1990s not only introduced new products and strategies; they also acquired struggling or bankrupt Japanese companies, changing their names and identities. It is interesting to note that newer Japanese entrants into life insurance, in turn, often acquired foreign-sounding names: this includes T&D Life Insurance (previously known as Taiyo Daido Seimei) and Millenia Holdings (previously known as Tokyo Kaijou). Foreignness, therefore, came to signal innovativeness. This is perhaps best represented by Sumitomo Life’s CEO who sought to modernize his company and adopt new innovative products under the slogan:

“We will be more foreign than the foreigners!”

3.3 Pilot Study 2: Merger and Acquisition Advisory

During the late 1990s, the number of mergers and acquisitions taking place in Japan rose rapidly; this was primarily a result of deregulatory measures introduced in 1996, and because Japanese firms were forced to consolidate in the face of growing international competition. While
mergers and acquisitions have existed in Japan for many years, most of these were negotiated directly between firms, almost always on a friendly basis. A significant change that occurred in the late 1990s, however, was the professionalization of M&A as investment banks began to play more important roles in the process.

Thanks to their expertise and experience in international markets, foreign investment banks were often at the forefront of introducing new M&A practices. By introducing valuation techniques honed in foreign markets, as well as experience and expertise in shaping strategy to raise shareholder value and improve profitability, these firms ushered in a mindset and approach to corporate finance that had hitherto been largely absent in Japanese business circles.

At the same time, Japanese corporations often viewed with skepticism the notion that companies could be bought and sold simply based upon valuation - with the ultimate goal of raising shareholder value. Traditional Japanese business practices emphasized a stakeholder perspective that included employees, suppliers, end-customers, as well as the overall community. From this perspective, the valuation-focused initiatives of investment banks were not necessarily perceived in an overall positive light.

This pilot study offers a glimpse into how two foreign investment banks (Deutsche Bank and Goldman Sachs) sought to negotiate their foreignness with the introduction of these novel, and sometimes deviant, practices.

Deutsche Bank

Deutsche Bank is one of the largest financial conglomerates in the world, employing over 100,000 people across the globe. The company has had a significant presence in Japan for several decades, including pre-World War 2, and employs close to 1,500 people in its Tokyo offices. With its significant balance sheet and international reach, Deutsche Bank has had the potential to be a key player in the Japanese M&A market, yet the bank often ranked below other smaller rivals such as Goldman Sachs, Morgan Stanley, and JP Morgan.

In the early 2000s, Deutsche Bank's Tokyo Investment Banking Division numbered about 70 people: roughly two-thirds of these were Japanese nationals while the rest were expatriates from numerous countries across the globe. In expanding its local investment banking team, Deutsche targeted potential employees from local Japanese
universities, as well as bilinguals from U.S. and top European universities. Similar to many foreign investment banks, it also sought to hire employees from other subsidiaries of foreign banks, as well as from local Japanese banks.

As the name suggests, Deutsche Bank is German by origin; however, thanks to its global scale, the organization's internal investment banking procedures reflect standards employed in the United States and Europe. In these markets, the competitiveness of an investment bank depends largely on the skills and capabilities it brings to the transaction; this includes, for example, its understanding of complex financial measures and products, as well as insights into specific industries and opportunities for enhancing client profitability and growth.

In attempting to leverage these skills and capabilities in the domestic Japanese market, however, Deutsche investment bankers often faced considerably different expectations and norms from its customers. One banker noted:

"... in Japan, the first thing [clients involved in a deal] want to know is what's going to happen with their employees; second, what's going to happen to customers and suppliers; third, the community - are we going to keep our good name up... and then finally, it's valuation. ... In the States, it's valuation, valuation, valuation, and then maybe what's gonna happen with the rest of that stuff... so we had lots of problems when people from the U.S. would come and show off and apply all this great financial engineering... it's just so foreign over there."

As a result, many of the firm-specific skills and capabilities that formed the basis of Deutsche's competitive advantage in other markets proved less effective in Japan. Another investment banker from the firm noted:

"We were probably more skilled and more advanced in terms of our financial capabilities, and... price is important, but price is somewhat established by what the 2 parties agree to, and that isn't always completely rational or based on financial tools."

Perhaps as a result of this difficulty, the bank's primary strategic focus was on cross-border deals where it could leverage its considerable international network. This, in turn, meant that Deutsche competed primarily with other foreign banks, as opposed to domestic organizations, as one former banker noted:
"...we would focus on cross-border acquisitions at places where we could use our global network to help the Japanese companies. So our main competitors were the global investment banks. We would not consider [Japanese investment banks] Daiwa or Nomura or any of those places our true competitors."

The differences in style and approach were, in turn, compounded by the fact that, by the early 2000s, M&A activity had evolved from its initial development phase to become a broad practice, accepted by many of the local companies and banks. As a result, historical relationships and networks played an important role, often leaving Deutsche out of the picture. One banker recalled:

"... for the domestic-domestic Japan deal we did not have a competitive edge at all. They tend to be more based on relationships and who you know. And within Japan, M&A is pretty well established. We knew how to do it, but [the customers are] gonna keep it with the old guys who've already done it for them a couple of times."

While Deutsche's advantage stemmed primarily from its international contacts, it did also have some specific advantages that stemmed from being a foreign firm and outsider in the local Japanese market. One banker noted:

"... as an international bank you're able to get in the door, and you might even be able to get more interesting meetings up front...you don't have to stick to the pre-stated Japanese protocol. So, for example... a German director, he wanted to talk to the head of a major business. He wrote a letter and... got a meeting with the person one step below that top-top guy. ... but for Japanese guys, it would've take them a year just to get two or three levels down from there. So, there's a benefit...where you get to the discussion quickly..."

At the same time, however, this advantage only lasted so far. As the aforementioned interviewee also noted, foreignness could get you in the door earlier, but the relationship would also be capped at some level. For Japanese banks with deeper ties and longer histories, relationships extended much further. Due to this fact, Deutsche often saw itself lose out to banks with closer relationships and ties to clients. While almost all of these competitors were domestic, a notable exception was the U.S. investment bank Goldman Sachs.
Goldman Sachs

In terms of the number of mergers and acquisition-related deals, Goldman Sachs is one of the most successful foreign banks in Japan. Between 1988 and 2007, it was the lead advisor on a total of 114 deals; this can be compared to a total of 22 deals for Deutsche Bank during the same period and 11 for Citibank.

Goldman Sachs' Investment Banking Division in Tokyo is made up almost entirely of Japanese nationals; of the 100 or so employees working there in 2005, only five or six were foreigners, according to respondents interviewed for the pilot study. Senior staffers often have advanced degrees from top schools in the United States; a common background is to have several years experience in Japanese firms or banks, then an MBA in the U.S., and subsequently returning to work at Goldman upon relocating back to Tokyo. In recent years, the bank has also sought to hire more directly from local Japanese universities.

Similar to many other non-domestic firms, Goldman Sachs benefitted from clients' assumptions that foreign banks were more skilled in doing M&A and had greater experience in the area. On the flip side, however, clients also felt greater uncertainty when dealing with foreign investment banks, many of which were considered cut-throat and overly competitive with little understanding of the local Japanese market.

According to interviewees with experience both within and outside Goldman Sachs, the bank was able to overcome this challenge by putting together an organization that was sufficiently Japanese in order to defuse client fears. One investment banker from a rival foreign firm noted:

"Goldman was a very well put-together bank. All of their people were completely bilingual, but they tried to focus on Japanese nationals who were completely bilingual, and they'd give them a forum to be more Japanese at a foreign bank."

Concretely, this meant that many of the employees at Goldman Sach's M&A division adopted client strategies that were usually only prevalent among domestic banks. One former investment banker at Goldman described the following situation:

"GS bankers... do service the Japanese way... if you want to get business in the Japanese securities industry, you have to entertain the client a lot,
The Paradox of Foreignness

[Japanese securities companies] go drinking with clients a lot... we just imitate this process, take clients drinking and try to become their friends. The last thing we want is that they don't hire us because they think we are a foreign company and it's kind of uncomfortable dealing with foreigners...we want them to think that Goldman has a kind of katakana\(^3\) name but we are a Japanese company."

By hiring bilingual Japanese nationals as employees and allowing them to express this Japanese identity in interactions with clients, Goldman Sachs sought to downplay its foreignness. At the same time, however, the katakana name also had advantages for the firm as clients often believed foreign firms were more knowledgeable about M&A. Goldman, therefore, sought to combine these two elements, as the former employee noted:

"... a lot of clients thought that foreign banks had a lot of expertise in M&A and in terms of that impression, the katakana name helps a lot. But once clients meet with us they think 'oh, these guys are Japanese', so it's kind of comfortable to deal with them. So we have those two aspects – katakana name with a Japanese mindset."

It is important to note that although Goldman Sachs nurtured and emphasized their Japanese mindset, its underlying capabilities and levels of performance differed considerably from those of other Japanese banks. As one former employee noted, the Japanese banks had the necessary basic skills, but not the experience or professional flow that characterized Goldman Sachs’ dealings:

"I think [the Japanese banks] are studying very well, they know what they're supposed to do, but...if you've done only one or two M&As, you're still not very comfortable in the whole process."

In competing with other foreign banks, however, Goldman also sought to differentiate itself by being more “hardcore” as one respondent put it:

"I think GS is more hardcore [than other foreign banks]...even if the client only asks us to do one analysis, we do a lot of analyses...so the client can prepare more for negotiations. So, GS tries to impress the clients by working really really hard. I did a deal with [another foreign bank] and [those] guys

\(^3\) Katakana is the Japanese alphabet used for foreign words and names.
think it's more important to impress clients by doing things very efficiently
and to the point stuff."

Significantly, the emphasis on hardcore and broad analysis has been a
common feature of the Japanese banks, whereas focusing upon core
valuations was a signature approach of foreign banks. In the above
case, Goldman Sachs adopted the Japanese approach in its business
dealings. A banker at a rival firm put it as follows:

“They had the strength of this worldwide juggernaut behind them and... they
would get absolutely the best bilingual, bicultural candidates they could
and, therefore, they could act like a Japanese bank when they needed to or a
foreign bank when they needed to... it was quite impressive, frankly.”

Mergers and acquisition advisory involves not only organizing potential
deals; it also means often proposing specific measures including, for
example, divestitures, downsizing, or other major shifts in corporate
strategy. As previously noted, proposing such solutions to customers
could at times be difficult, particularly if it involved downsizing or other
measures that might be seen as unpopular.

With their Japanese mindset, Goldman Sachs appears to have toed
a fine line in this area. According to interviewees, the bank did not find
it difficult to propose ideas that challenged traditional practices; at the
same time, however, it was very careful not to overstep the boundaries:

“I think in terms of like cutting employees or doing restructuring, [the
clients] are fine with getting advice on that... [but] we also think about our
relationships with clients. If [a Japanese bank] says sweet things and GS
says harsh things, then clients are gonna hate us so... it's the same with us,
both Japanese and foreign firms cannot say radical things, that’s same.”

Conclusion

The interviews conducted with investment bankers at Deutsche Bank
and Goldman Sachs indicate that the foreign firms faced hurdles in
introducing M&A practices to Japan. Interestingly, these hurdles
appeared to be a function of both the specific nature of their practices
(e.g. the practice itself was ill-suited to the reigning practices and
institutions of the Japanese business environment) and overall
assumptions and perceptions of the bank (e.g. some customers were
uncomfortable working with unknown foreign entities).
The Paradox of Foreignness

In order to overcome these challenges, the two banks appear to have chosen different strategies: while Deutsche focused upon international transactions (i.e. ones in which it had a specific competitive advantage over domestic actors); Goldman Sachs put emphasis on localizing its behaviors and approach in an effort to reduce any potential stereotypes that arose from foreignness. This, in turn, led to different degrees of foreignness - while Deutsche saw itself as mainly foreign and not a part of the Japanese relationship-based banking community, Goldman sought to portray itself as Japanese with a foreign-name. Alternatively, as one interviewee noted, the bank tried to have flexibility in its identity – appearing Japanese in certain situations and foreign in others.

Hence, external actors' perceptions appear to have played an important role. This insight is reinforced by interviews conducted with bankers at a Japanese investment bank. These respondents argued that foreign firms had more freedom to adopt certain behaviors. One banker from the Japanese bank noted:

"... foreign firms’ roles is to introduce new things, ‘off the beaten track’...foreign companies are good at introducing new things on the market from their home market. However, whether these take off depends on whether they can create a market or not."

While foreign firms were, thus, seen as innovators and the source of new practices, according to the Japanese bankers, domestic firms were often slower in adopting these. A primary reason for this was the nature of existing relationships; in particular the Japanese bankers thought their organizations were more constrained due to their deep relationships. They were, therefore, unwilling to propose certain solutions or strategies to their clients. One banker explained:

"It's difficult to do things... we can't do things sometimes because of client relationships. We can't take risks because we have relationships with clients, but firms who don't have these relationships can take bigger risks."

At the same time, the nature of these differences and constraints appeared to change over time. Foreign-based mergers and acquisition practices were originally introduced in the mid 1990s. However, by the early 2000s, when these interviews took place, Japanese corporations had become accustomed to M&A; as a result, their views and
assumptions of Japanese banks offering this practice had also changed. One interviewee from a foreign bank noted:

"I think now Japanese clients think Japanese banks are good too and...the number of M&As are increasing ...domestic corporate banks like Mizuho have started to become investment banks and they've started to pitch aggressively towards M&A and management has started to think M&A is not a special event, so those kinds of things have made clients starting to choose Japanese firms..."

3.4 Pilot Study 3: Zero-Fee ATMs

While foreign bank innovations have primarily been focused on the corporate business, targeting companies and organization, this final pilot study describes an innovation on the retail banking side. For many years, Japanese banks levied extra fees upon customers withdrawing cash from rival bank ATMs. For example, Sumitomo Bank charged customers 105 yen when withdrawing money from a Fuji Bank ATM. This system was in place at all Japanese retail banks and functioned according to a gentleman’s agreement formed by the various banks that were members of the Japanese Banking Association.

In 1993, Citibank of the United States broke with this traditional practice by introducing ATMs that did not charge extra fees for withdrawals. Citibank’s decision stemmed primarily from its view of the market: the bank saw no reason to charge customers extra fees for services that were essentially without cost. Moreover, as the only foreign bank with retail operations in Japan, Citibank was actively looking for a way to compete with dominant local Japanese banks.

Citibank’s strategy met with little resistance from local banks; while the introduction of the zero-fee ATMs was highlighted significantly in the local press, it garnered few negative reactions. Instead, Citibank was viewed as an innovator and change agent, introducing novel practices. Japanese banks, however, largely dismissed the move because they did not see it as a credible competitive threat. For the remainder of the 1990s, Citibank was the only bank to provide zero-fee ATMs. In 1997, a smaller regional bank, Soga Bank, opted for a similar strategy; for various reasons, Soga went bankrupt soon thereafter.
Star Bank and Zero-fee ATMs

By the late 1990s, Japanese banks were facing significant uncertainty due to deregulation and the prolonged financial downturn. A number of Japanese banks, in particular, had gone bankrupt and were subsequently overtaken by foreign owners. While these banks remained Japanese, they often adopted internal practices and strategies in line with those of foreign banking subsidiaries. In 2000, one of the foreign-acquired banks, Tokyo Star, introduced a similar strategy to that of Citibank: offering zero-fee ATM withdrawals.

While Citibank's initiative had been largely ignored, domestic competitors met Star Bank's efforts with severe criticism. Despite being foreign-owned, Star Bank was a member of the 2nd Tier Regional Banking Association, a sub-group within the larger Japanese Banking Association. This can be compared to the case of Citibank, which was a member of neither of these organizations. In introducing the zero-rate ATMs, Star Bank, therefore, defied the gentleman's agreement that had dominated practices within the Japanese banking community. One Star Bank employee involved in the dealings recalled:

"... basically, our business model [took advantage of the] gentleman's agreement and this of course upset people immensely. ... the members of the financial village were incredibly upset, they asked Why are you doing this? Get out of the village!"

These negative reactions came despite the fact that Star Bank was a marginal player with a comparatively small retail base, in comparison to some of the major competitors such as Sumitomo Bank and Fuji Bank. Moreover, in addition to criticism from fellow banks, Star Bank was also chided by some parts of the media that had portrayed it as suspicious and untrustworthy.

The decision to abolish ATM fees had, in fact, originated with Todd Budge: the American CEO of Star Bank. Upon taking office, Budge had sought to move Star Bank away from traditional Japanese banking practices, which focused upon relationships and historical ties, to one that emphasized profitability and return to shareholders. While the bank remained Japanese in both its formal identity and focus, its internal operations and practices departed significantly from those of other domestic organizations. As one Japanese banker noted:
"The thinking is much closer to the idea of fees, more than assets. So rather than thinking about relationships and business with customers, the primary focus is on income and profitability.... Budge really worked hard to construct this image, to create value, to do this together."

Despite heavy criticism, Star Bank maintained its zero-fee ATMs in the market. Within a relatively short time period, attitudes to the practice had begun to change and major commercial banks also began to adopt zero-fee ATMs. According to one Star Bank employee who was interviewed, the key driver of this change was the adoption of zero-fee ATMs by Mitsubishi Bank: one of the leading Japanese banking institutions. Although Mitsubishi had initially been a major critic of Star Bank, its subsequent adoption opened the way for other firms to follow suit. Star Bank’s efforts paid off, although at some initial costs. One interviewee, in particular, saw a difference between Star Bank’s efforts and those of Citibank almost 10 years earlier:

"...Citibank was completely outside of the village but Star Bank was actually in a village within the village, because it was a member of the second-regional bank association. And so, it was really in the middle of the village, right in the center, and so it was like a foreigner entering the middle of the village and doing new things."

Conclusion

While the short tale of Star Bank’s efforts in introducing zero-fee ATMs supports many of insights from the previous pilot studies; it also emphasizes three important points. To begin with, the pilot case exemplifies the different perceptions and expectations that can be applied to foreign and local organizations. In particular, Citibank faced none of the recriminations endured by Star Bank, even though it introduced the exact same practice. In fact, Citibank launched zero-fee ATMs during a time of relative institutional stability as compared to the uncertainty that characterized Star Bank’s era. Based upon previous research, this would lead us to expect greater sanctions upon Citibank, as opposed to Star Bank (c.f. Kostova & Zaheer, 1999; Oliver, 1991).

Secondly, although Star Bank was a Japanese bank, it was also majority owned and run by foreigners, putting it in a somewhat differentiated position vis-à-vis other local banks. The organization was also a relatively small bank. Both of these factors may have contributed to the significant negative reactions it faced. For example, it is
noteworthy that when zero-fee ATMs eventually did become accepted by Japanese banks, it was through the actions and leadership of a large and centrally located bank that was willing and able to adopt the practice.

These two insights reveal a third important point: even though it was legitimate for Citibank to adopt zero-fee ATMs, none of the major Japanese banks attempted to imitate or copy its strategy. Conversely, even though Star Bank was punished for its actions, these did lead to imitation. This would seem to indicate that actions are not judged solely on their own terms, but also in light of who or what organization is taking them. In the current case, domestic organizations viewed zero-fee ATMs as perfectly legitimate for foreign firms, yet they did not consider adopting the practice themselves. Moreover, this notion appears so ingrained that it did not result in any serious punishment or even attention to the foreign innovators. By contrast, when a domestic Japanese organization undertook the same practice, it resulted in much greater upheaval and subsequent change.

3.5 Analysis of Pilot Studies

While these three pilot studies cover different products, practices and services, they also provide some general insight into the relationship between foreignness and radical norm-breaking action. In particular, the pilot studies indicate that: 1) foreignness may potentially have both positive and negative effects upon the firm; 2) foreignness needs to be investigated both internally and externally; 3) understanding the relationship between foreignness and radical norm-breaking action requires controlling for other factors such as firm-specific capabilities; and, 4) understanding the relationship between foreignness and radical norm-breaking action requires taking a longer perspective since the acceptance of a practice changes over time. I discuss each of these findings in greater detail below.

Positive and Negative Aspects of Foreignness

As the cases discussed above demonstrate, foreignness has had both positive and negative impact upon firms’ abilities to introduce novel practices. In the case of The Hartford Group and Deutsche Securities, foreignness was, on one hand, negative; due to their lack of domesticity
and outsidership, both of these organizations had difficulty transferring practices to the Japanese market.

At the same time, however, foreignness also appears to have had positive effects. For example, in the case of Deutsche Bank, foreignness enabled firms to approach clients more directly. For Hartford, foreignness led to positive stereotypes among some local suppliers, which enabled the firm to set up novel distribution agreements. The advantage of foreignness is perhaps most notable in the disadvantages faced by domestic actors; both Japanese life insurers and investment banks were unwilling to adopt similar actions as the foreign entrants. These differences are particularly clear in the case of the zero-fee ATMs where reactions to Citibank's initial strategy differed considerably from those met by Star Bank in its subsequent effort to introduce zero-fee ATMs. Finally, foreignness was also a direct advantage in that it appeared to inhibit imitation and direct competition on the part of domestic actors; this was especially clear in both the discussions of Citibank's zero-fee ATMs and Hartford's variable annuities.

Ironically, the advantages of foreignness were present alongside its disadvantages; Deutsche Bank was able to approach customers more directly than local Japanese competitors, yet it also had a competitive disadvantage in the overall local market. Moreover, foreignness had different effects for Hartford depending upon the external actor (e.g. distributor versus competitor). The effects of foreignness, therefore, appear to vary across specific actions and actor types. This finding lends credence to the idea that foreignness is not simply a one-size fits all notion of illegitimacy or liability; rather, it is a highly complex and varying effect.

**Internal and External Factors of Foreignness**

The fact that foreignness impacts the firm both internally and externally is a second insight that emerges. Internally, foreignness is related to the introduction of practices, strategies, and capabilities inherited from abroad. In both the case of Deutsche Bank and Hartford, the firms sought to transfer practices from other markets into Japan.

Externally speaking, foreignness has implication for the assumptions and perceptions of both domestic and foreign actors. This is initially evident in the extent to which the organizations classified
competitors in terms of their foreignness; in particular, the foreign investment banks, as well as the life insurers (both foreign and domestic), appeared to use foreignness as a category to define their direct competitors. Foreignness also appears to serve as a proxy for skills, capabilities, and innovative action: while this can be most easily seen in the life insurance company's aim to be "more foreign than the foreigners"; it also re-emerges in discussion with Japanese investment banks who view foreigners as innovators and carriers of novel practices.

The insight that foreignness impacts internal practices and external perceptions is in line with the discussion of the theory chapter and serves to confirm some earlier research. What is interesting is the extent to which these effects appear to be used strategically by some firms. The case of Goldman Sachs, in particular, suggests that firms can alternatively amplify or tone down their foreignness to take advantage of both its internal and external implications. The discussion of Star Bank's difficulties in introducing zero-fee ATMs further indicates the problems that may arise when firms are unable to effectively control these effects, especially vis-à-vis outsider perception.

Foreignness and Firm-Specific Capabilities

The importance of separating the effects of foreignness from other firm-specific resources and assets in undertaking radical strategic action is a key methodological insight that results from the pilot study. While the above interviews and findings suggest foreignness may have both positive and negative implications for undertaking strategic action; it is difficult to know this for certain since many of the innovations rely upon specific knowledge, capabilities, and skills.

A case in point is that of variable annuities: was Hartford able to introduce variable annuities before Japanese life insurers simply because it was foreign, or because Japanese life insurers were faced with specific regulatory and knowledge-based constraints? While the interviews with both foreign and domestic life insurers, as well as third-party analysts, suggest that prevailing norms and institutional pressures may have played a part, we are unable to say whether they constituted the primary reason for Hartford's early entry into variable annuities.

To complicate matters, firm-specific skills and capabilities are closely related to assumptions and perceptions. In other words, the
beliefs and stereotypes of local actors are presumably not taken out of thin air, but are based upon previous experience. Local Japanese client firms, for example, initially believed foreign firms were better at M&A. While this constitutes a positive classification and perception based solely upon foreignness, it might also be justified considering the international experience and capabilities of foreign actors. Separating the effects of foreignness and other firm-specific capabilities is, therefore, crucial in the subsequent empirical investigation.

**Foreignness and Institutional Context**

These findings also suggest that the effects of foreignness - both positive and negative - must be understood in the context of larger political, social, and economic forces. The fact that Citibank was ignored by local banks when it first introduced zero-fee ATMs may be due to the fact that its practice was deemed illegitimate and, hence, off limits; or, it may be simply due to the fact that Japanese banks were comfortable with their existing positions and had little to gain from imitating or attacking Citibank’s practices. Similarly, Hartford’s introduction of variable annuities may have been significantly impacted by regulatory structures that prevented the sale of the new products through banks. The pilot studies, thus, suggest the importance of clarifying larger contextual effects.

**Foreignness, Strategic Action and Evolution of Norms and Practices**

Lastly, the pilot case studies suggest that the effects of foreignness on radical norm-breaking action are not uniform over time. It is for example interesting to note that the Hartford and Deutsche Bank faced difficulties in markets displaying very different degrees of product maturity; variable annuities were new to Japan, whereas mergers and acquisitions had reached a certain level of acceptance.

The existing data say nothing about whether Deutsche’s constraints were lower during the initial stages of M&A, nor can I predict how Hartford will fare once the variable annuities business has matured. However, the findings do seem to indicate that the negative effects of foreignness may appear at different stages of product/practice maturity. Moreover, if the negative effects of foreignness differ across product maturities, might potential advantages do so as well?
More generally, time appears important not only in terms of product maturity but also for the overall institutional development of the market. In both the variable annuity and mergers and acquisition cases, foreign firms decided to introduce novel practices during times of institutional upheaval. In the case of the zero-fee ATMs, however, Citibank introduced the practice at an earlier stage when the Japanese financial market was relatively robust; meanwhile, Star Bank chose to introduce zero-fee ATMs at a time of considerable institutional change.

3.6 Implications for Research Design and Methods

The findings from the pilot case studies have some direct implications for the research design and methods employed in the current study. To begin with, a full analysis of the effects of foreignness requires investigations on multiple levels, including internal firm practices and processes, intra-firm relationships and expectations, as well as overall institutional developments. The last point, in particular, stems from the fact that the effects of foreignness appear to change over time as a practice becomes more accepted and legitimate in the local environment. From this observation, I draw the conclusion that an investigation of foreignness requires a longitudinal and multi-level approach, as well as comparative aspects.

Secondly, the pilot studies emphasize the importance of including not only MNE subsidiaries, but also host country actors in the sample. While this point was discussed in the theory chapter, it is further emphasized in the pilot case studies. Including host country actors in the studies not only clarifies the exact differences between foreign and non-foreign firms; it also allows us to investigate the competitive reactions of host country actors. As previously discussed, these are crucial in evaluating the effects of foreignness.

Third, the pilot studies imply that the characteristics of foreignness must be explored in greater detail. In particular, we need to understand how foreignness directly impacts and leads to specific internal routines and practices; this point is particularly salient in the case of Goldman Sachs. Moreover, the case of Goldman Sachs also points to the importance of separating internal and external aspects. As aforementioned, firms may attempt to achieve specific images and attributions among host country actors that may or may not be directly connected to internal routines and practices.
Finally and most critically, the analysis of the case studies again emphasizes the importance of separating the effects of foreignness from other related factors, such as country-of-origin effects and firm-specific capabilities. An effective research design, therefore, requires a very careful selection of the phenomenon under investigation, as well as the specific cases to be studied. Based upon these insights, the subsequent chapter introduces the research design and methods employed in the central empirical study.
A recurrent theme of the preceding two chapters is the complexity involved in investigating foreignness and its effects. Not only is the concept of foreignness itself only loosely defined, the effects vary over time and are often mitigated by other factors; these points come across particularly clear in the pilot studies. Within the particular context of this study, exploring the effects of foreignness thus necessitates both an empirical setting and a research design that can effectively manage these various challenges.

In response to these demands, I investigate the effect of foreignness upon the introduction of loan syndication, a norm-breaking financial practice within the context of the Japanese banking industry. In particular, this study seeks to understand how foreignness impacted MNE subsidiaries' abilities to overcome constraints against introducing a lending format that significantly challenged heavily institutionalized beliefs, practices, and strategies. Since the research questions embark from an exploratory base, the study adopts a multi-level and comparative case study approach, investigating the introduction and implementation of loan syndication from both industry and firm-level perspectives.

The current chapter discusses the details of this research strategy in three sections. The first section introduces the research context of loan syndication and Japanese banking in greater detail by highlighting, in particular, the differences between loan syndication and the pre-existing bilateral Japanese lending practice. Section two
Chapter 4

details the research design, focusing on case selection, units and levels of analysis, as well as the time-span of the study. Section three discusses methods of data collection and analysis, as well as strategies for overcoming issues of validity and generalizability in the case study approach.

4.1 The Empirical Setting: Loan Syndication and Japanese Banking

As the name suggests, a syndicated loan is one where multiple lenders come together (i.e. forming a syndicate) to lend to a single corporate borrower. One lead financial agent (or sometimes several who are variously known as bookrunners, lead agents, or mandated arrangers) runs the syndications. The bookrunners negotiate the terms of the loan, deal with the customer directly, and subsequently syndicate out the total lending amount to other members of the syndication, otherwise known as participants.

While loan syndication originated in the United States in the latter 1960s and subsequently spread throughout the international financial market in the 1970s, it failed to make in-roads into Japan, one of the fastest growing financial markets of that era. Japanese lending practices were, instead, dominated by the so-called main bank system, a bilateral lending structure characterized by close ties between banks and its corporate customers.

The main bank system originated at the end of World War 2, subsequently evolving during an era when Japan's financial markets were largely shielded from the outside world. As a result, it came to be characterized by a number of practices, norms, and structures that differed significantly from that of loan syndication.

Lending Structures: Syndication versus Bilateral Hierarchies

The post-war main bank system was characterized by deeply embedded relationships between corporations and their lenders. While each firm had ties to a number of financers, these were arranged in a status hierarchy with the top lender being known as the main-bank. The main-bank served not only as the primary source of funds; it also offered other auxiliary services such as business advisory services, underwriting during equity issuance, contact with other potential business partners, etc. Main banks were also expected to provide
financing and support to client companies during times of financial difficulties; this included for example deferring interest payments, providing emergency financing and even seconding bank personnel to companies to help them manage their business. Main banks were hence expected to support customers at virtually any cost.

In return for its support, the main bank was always approached first in questions of financing or other business propositions; moreover, employees of corporate clients were told to use the main bank’s retail outlets for their personal financing, thereby creating strong linkages that benefited both parties. Subordinate banks were subsequently used to augment borrowing or for special purpose financing, for example long-term lending. Because of this strict internal status hierarchy, lending terms were negotiated on a bilateral basis; interest rates for the same loan thus varied depending upon the bank’s status, as well as the auxiliary services it was willing and able to supply.

Due to its close relationships with the client firm through both lending and equity stakes, the main bank often had in-depth information about the clients business practices. Subordinate banks, with weaker relationships and less information, subsequently used the main bank’s lending as a benchmark for judging the clients’ overall creditworthiness. Figure 4-1 gives a graphical depiction of the structure of lending in the main bank system.

Figure 4-1: Lending Structure of the Main Bank System

Main bank

Subordinate bank 1

Subordinate bank 2

Subordinate bank 3

Borrower

Main bank has close relationships & privileged information about borrower, receives majority of business

Subordinate banks have weaker relationships and less information; benchmark main bank in lending decisions
In loan syndication, by contrast, banks work together under the auspices of a single bookrunner. The borrower, therefore, deals only with one entity, which subsequently portions out the loan tranches in a bidding process. While this syndications is done on a competitive basis, it is determined by market prices and the individual bank’s minimum acceptable risk-rates; hence, offers of auxiliary services and status in client relationships play little, if any, role in determining the terms of the loan deal and the various roles of the banks. As a result, a bank may play the role of bookrunner in one deal, but take a position as participant in subsequent deals. Figure 4-2 outlines the structures of loan syndication:

**Figure 4-2: Lending Structure of Loan Syndication**

*Primary Source of Revenues*

A second important difference between the main bank system and loan syndication is revenue structure. In loan syndication, the primary source of income comes in the form of fees that are awarded to the bookrunner for arranging and managing the lending. The total return of these fees is further maximized through leverage, as bookrunners
are able to syndicate out the majority of the loan, yet keep much of the fees up front. For this reason, banks seek to be bookrunners and arrangers for major deals and place less focus upon the amount of loans they ultimately keep on the balance sheet.

In the main bank system, by contrast, there was no syndication and, as a result, no extra fees. Instead, the primary source of revenues came from interest on the total underlying loan. This interest was, in turn, calculated individually for every bank and depended upon their position in the internal bank hierarchy. While all participants in loan syndication receive the same interest regardless of their relationship and connection to the client, interest and terms in the main bank system were intimately connected to relationships and status.

**Function of Loans: Assets versus Liabilities**

A third crucial difference between loan syndication and the main bank system was the function of loans upon the banks’ balance sheets. As noted above, the economic advantages of loan syndication are driven by leverage; as a result, the more loans that banks can remove from their balance sheets through syndication, the better return they garner. Hence, from this perspective, loans were viewed as costs and liabilities, to be reduced and diversified as much as possible.

Conversely, loans were primarily seen as core assets in the main bank system. The underlying reason for this was the importance of bank status; the higher the banks status among its customers, the more revenues it received in the form of current and future business. In turn, status was driven by the amount of lending; the more banks lent to customers, the higher their position in the internal hierarchy. As a result, loans came to be seen not as liabilities or risks, but as “treasures”, and core strategic assets.

**Loan Trading**

The notion of loan trading is closely associated with the function of loans. A primary advantage of loan syndication is the ability to sell loans to third parties, thereby diversifying underlying lending portfolios. This secondary loan trading market functions much as a securities market for equity and bonds, with the crucial difference that placements are private. In other words, deals are handled between individual actors, rather than upon a general exchange.
Chapter 4

The treasured position of loans in the Japanese main bank system, however, means that loan trading was deeply frowned upon. In particular, trading or selling loans would not only be tantamount to reducing one’s status and position vis-à-vis customers; it could also have negative spillover effects on lending by other financial institutions. As previously noted, main banks often had access to detailed information about the borrower and, as a result, subordinate banks benchmarked the lending of the main banks as a proxy for risk and borrower credit worthiness. If the main bank reduced its lending or actively sold off loans, this could send the signal that the borrower was in financial trouble, thereby, prompting reduced lending from subordinate banks as well. As a result, loan trading was completely absent from the Japanese main bank system.

***

Table 4-1 below summarizes the differences between loan syndication and the main bank system. As the table indicates, the main bank system differed from loan syndication not only along structures and format, but also in terms of practices and logics. As we shall see in the subsequent chapter, these logics and practices were deeply institutionalized during and maintained via a range of powerful mechanisms.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Main Bank System</th>
<th>Loan Syndication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending structure and relationships</td>
<td>Loans arranged on a bilateral basis, little if any joint funding by banks. Fixed internal hierarchy and status of banks.</td>
<td>Terms and interests arranged by one lead bookrunner apply to all participants; no fixed roles for banks.</td>
</tr>
<tr>
<td>Source of revenues</td>
<td>Interest rate-based, no fees; terms and interest decided by status and hierarchy of banks, as well as on auxiliary services.</td>
<td>Fees primary source of income, interest rate secondary; loan tranches syndicated on market price-principle; little or no impact from relationships, status, or auxiliary services.</td>
</tr>
<tr>
<td>Status of loans on balance sheet</td>
<td>Loans seen as key asset and sources of competitive advantage; determine future business prospects.</td>
<td>Loans seen as cost and liability on balance sheet, syndicated out whenever possible.</td>
</tr>
<tr>
<td>Loan trading</td>
<td>Loans are never sold or removed from balance sheet</td>
<td>Loans actively traded on secondary market.</td>
</tr>
</tbody>
</table>

Despite these major differences, the first loan syndication was successfully introduced onto the Japanese market in 1997. Although
The Paradox of Foreignness

initially opposed and ignored, by 2007 this novel practice had emerged as not only a legitimate and acceptable form of funding, but also the fastest growing form of corporate finance in Japan. Notably, foreign banks were important players in the evolution of this lending practice. The focus of interest for this study is, therefore, how foreignness impacted the ability of MNE subsidiaries to adopt and introduce norm-breaking loan syndication. In the following sections, I discuss in detail the research design and methods employed to investigate this question.

4.2 Research Design: A Case Study Research Strategy

The preceding discussion indicates loan syndication not only differed significantly from the traditional Japanese main bank system, it also challenged many of its deeply institutionalized practices, norms, and structures; as such, it corresponds to the "frame busting" definition of radical action as put forth by Greenwood & Hinings (1996). As identified in Chapter 2, the central research questions of this study concern if, how, and why foreignness has an impact upon the ability to take norm-deviant action on the part of MNE subsidiaries. Linking these to the specific empirical phenomenon, the objective is, hence, to explore how foreignness impacted banks' abilities to introduce loan syndication - both internally and externally. In particular, I seek to shed light not only upon the effects of foreignness; I will also investigate the underlying mechanisms of these effects.

A Case-Study Research Strategy

In order to investigate these underlying effects and mechanisms, I adopt a case-study research strategy. While methodologists have offered varying definitions of what constitutes a case study, Gerring suggests the approach is centrally defined as "an intensive study of a single unit or for the purpose of understanding a larger class of...units." (2004, p. 342). By this definition, the investigation can be characterized as a case study because it focuses upon one specific phenomenon (the introduction of loan syndication) with the explicit goal of developing theoretically generalizable findings.

A case-study research strategy is appropriate not only due to the specific focus of the investigation; it also embodies characteristics
particularly suitable to the research questions at hand. To begin with, case studies make room for qualitative research methods; this makes them particularly suitable for investigating messy relationships, complex constructs, and mechanisms that may be difficult to quantify or understand in any other way (Eisenhardt, 1989; Gerring, 2004; Ghauri & Grønhaug, 2005). As such, the case study method is also an exemplary format for explicating contextual effects (Stake, 1994). For example, Yin (1994) argues that case study research designs are primarily used to study contemporary phenomenon within their overall societal context, especially when the boundaries between phenomenon and context are hard to distinguish.

As noted in the theory chapter, the effects of foreignness upon norm-breaking action, as well as their underlying mechanisms, are largely unexplored. Moreover, because this study considers foreignness from an organizational perspective, these effects are interrelated with external context - specifically in the form of institutionalized norms, practices, and beliefs. Understanding how and why foreignness impacts norm-breaking action, therefore, requires an understanding of the messy relationships and complex context that are highlighted in case study approaches. Recent in-depth investigations into the mechanisms and processes of norm-breaking and institutional change by organization theorists have similarly emphasized a qualitative and case-based research approach (see for example Greenwood et al., 2002; Townley, 2002; Zilber, 2002).

A second reason for choosing the case study approach is its applicability to the multinational enterprise. Although extant research on the liabilities of foreignness has been overwhelmingly quantitative and deductive in nature, several scholars have suggested qualitative approaches are particularly suitable for investigating the MNE. This is because they aid in explicating the cultural differences and unspoken normative barriers and challenges that MNE subsidiaries often face in host countries (Wright, 1996). These dynamic and context-specific processes are often poorly measured or even misunderstood when using quantitative constructs and variables originally developed in studies on MNEs in North America or Europe (Osland & Osland, 2001; Wright, 1996). As noted in Chapter 2, Zaheer (2002) has specifically called for adopting alternative research strategies - including ethnographic and other qualitative approaches - in investigating the actual meaning and effects of foreignness.
The Paradox of Foreignness

The role of pre-existing theoretical concepts and constructs also suggests a case-study approach is the most fruitful research strategy. As the discussion in Chapter 2 indicates, this study originates from existing theoretical constructs and seeks to contribute to developing new concepts and frameworks in order to explain an under-researched phenomenon. As a result, the study can be described as taking an inductive approach, albeit within the realm of specified theoretical and conceptual frames (c.f. Langley, 1999). Case study approaches are particularly suitable for this type of combined inductive-deductive investigation; they enable the researcher to chart new territory while simultaneously relying upon pre-defined concepts (Eisenhardt, 1989). The objective is, therefore, not to test existing theory, but to juxtapose and further develop weak or under-researched aspects of existing concepts (i.e. foreignness).

Within the flora of case study typologies, comparative research designs are the most fruitful for developing and expanding generalizable theoretical concepts (Eisenhardt, 1989; Langley, 1999; Yin, 1994). Multiple units of analysis are necessary in order to establish causality through co-variation in observations (Gerring, 2004); they also enhance validation of emergent constructs through case replication (de Vaus, 2001; Yin, 1994). Furthermore, comparative research designs are important for the specific topic of foreignness; since foreignness is relative to local actors, it is best investigated by comparing domestic and non-domestic organizations (Mezias, 2002b; Zaheer, 2002). For all of these reasons, the study adopts a comparative case study approach, contrasting the introduction of loan syndication by foreign and non-foreign banks.

Alternative Research Designs

Before advancing to the specifics of the research design, it is worth reflecting upon alternative research strategies. While I have chosen to adopt a case study approach, there are a range of other designs that could potentially have been applied to this study. To begin with, one possibility would be to investigate the effects of foreignness using a purely quantitative study. A number of studies in organizational sociology have, for example, successfully used event-history models to show when and why some organizations are able to break with locally accepted norms and practices (Ahmadjian & Robinson, 2001; Palmer & Barber, 2001; Rao et al., 2003).
The disadvantage of a purely quantitative approach, however, is that it necessitates specific variable constructs, as well as different possible causal pathways. As argued in the preceding chapter, the exact contents of foreignness' black box are largely uninvestigated and unknown. Indeed, one of the goals of the study is to approach foreignness without \textit{a priori} assumptions of various effects, and this effectively prescribes that theoretically derived hypotheses not be used.

Another option would be to approach the research from non-case-study qualitative approaches, including participant-observation, historical archival analysis, ethnographic methods or in-depth interviews. While each of these formats, on their own, grant important insight into the phenomenon at hand, the dynamic and contextual nature of the subject of study indicate that they will not be sufficient on their own. Participant-observatory approaches may, for example, cast great light upon the processes taking place at a certain time and place, but they offer little understanding of historical events. In-depth interviewing may provide historical insight; however, it risks interviewee bias and reconstruction. Archival and historical analysis is an alternative approach, yet much of the information, including decision rationales and specific events, may not be available through archival documentation.

Surveys constitute a third option that bridges the gap between the \textit{a priori} constructs of purely quantitative data sets and the in-depth analysis of qualitative techniques. Unfortunately, the use of surveys encounters barriers similar to other quantitative methods; the exploratory nature of the variable constructs is such that an effective survey would be very long and might not necessarily account for all possible variables or effects. In addition, surveys also suffer from the risk of low response rates. This is especially the case when investigating industries or organizations unaccustomed to academic research or that may be unwilling to answer too many questions. Other research methods, including participant-observation and ethnographic approaches, share this drawback, especially in the chosen research context of Japan and the banking industry (see further below).

\textbf{Units and Levels of Analysis}

As noted above, the primary unit of analysis of this study, i.e. "the 'thing' which we collect information about and from which we draw conclusions" (de Vaus 2001, p. 18, original quotations), is the
The Paradox of Foreignness

introduction of loan syndication. This overarching unit of analysis is, moreover, broken down into two different levels of analysis and operationalization.

In Chapter 5, the introduction of loan syndication is compared across the two populations of Japanese and foreign banks. A population-level analysis is primarily motivated by the fact that this study defines foreignness as an exclusionary trait (i.e. a characteristic that sets non-domestic firms apart from host country competitors). If foreignness has an impact upon norm-breaking action, we would then expect to see considerable differences in the introduction of loan syndication on an individual firm-level, as well as a population level. The population-level study operationalizes the unit of analysis as time of introduction. In other words, I seek to understand when foreign and domestic banking populations introduced loan syndication to the Japanese market. As part of this analysis, I also situate the introduction patterns within the larger political, economic, and institutional context of the Japanese banking industry during the 1990s.

A drawback of a population-level analysis is that it prevents a detailed investigation into the underlying mechanisms associated with the introduction of loan syndication. Since an understanding of how and why foreignness impacts norm-breaking action requires an exploration of these mechanisms, I also conduct organization-level case studies in chapters 6, 7, and 8. In order to highlight the underlying mechanisms, these studies operationalize the unit of analysis as the process by which a subset of foreign and Japanese banks adopted and subsequently implemented loan syndication.

Process is a slippery methodological term, connoting different levels of analysis and detail. Researchers in the strategy-process school have highlighted the need for explicating individual-level actions, decisions, and behaviors (Pettigrew, 1990; Whittington, 2004); by contrast, organizational sociologists focusing upon institutional change, conceptualize processes as "higher-order effects" (Schneiberg & Clemens 2006; c.f. Oliver 1991), which are studied on the level of the organization or population.

As aforementioned, foreignness is a population and organization-level construct, as opposed to an individual-level characteristic. Moreover, the central focus of this study is on how foreignness results in inter-organizational differences in action, specifically in relation to larger institutional forces for isomorphism and conformity. As a result,
Chapter 4

I define processes on the level of the organization. The primary goal is, hence, not to investigate individual actors' activities within the various banks; rather, it is to understand behaviors and actions on the overall level of the banks themselves.

Time-Span of the Study

While this investigation is exploratory, it also has explanatory ambitions; in other words, my goal is to offer a preliminary rationale for the events that we observe, specifically as they relate to foreignness. As de Vaus (1994) notes, an explanatory case study must by definition involve a temporal component; in particular, it is impossible to analyze and understand cause and effect without allowing for the passage of time. The effects of foreignness upon MNE subsidiaries' abilities to undertake radical strategic action may for example vary over time as the norms, expectations, and beliefs of the external institutional environment change (c.f. Zaheer & Mosakowski, 1997). Moreover, this dissertation necessitates a time component since loan syndication was adopted in different time periods by the firms under study.

For the population-level investigation, the time segment stretches from 1983 (the earliest recorded loan syndication to a Japanese corporation) to 2007. The organization-level time span focuses, in turn, upon the period in which loan syndication became officially recognized in Japan and began to spread in earnest; this begins in the mid 1990s and continues through 2007. This time span includes the early introductions of loan syndication, the decisions made by the various organizations, and the subsequent development of the market. By spanning the entire history of the loan syndication industry in Japan, the study provides a fuller account of the context within which the foreign and domestic organizations made their decisions.

Synthesizing the previous points, the units and levels of analysis are described in Figure 4-3. In order to investigate the effects of foreignness both as a population and organization-specific construct, the investigation adopts two different levels of analysis. The population-level analysis compares when foreign and Japanese banks adopted loan syndication; the time span of this study stretches back to 1983, the earliest recorded syndicated loan by any bank - foreign or
otherwise - to a Japanese corporation. The organization-level analysis emphasizes firm-level processes as its unit of analysis, seeking to compare how individual banks introduced loan syndication, and the reason why these approaches differed.

4.3 Case Selection Strategies

An often invoked drawback of small-N research strategies such as comparative case studies is their inability to produce findings that are generalizable and valid for larger populations. This is particularly the case in comparison with the statistically robust findings generated from large-sample quantitative studies. A number of authors have suggested case selection strategies are a crucial element in overcoming these limitations (de Vaus, 2001; King, Keohane & Verba, 1994; Stake, 1994; Yin, 1994).

The type of selection strategy employed depends upon the underlying motivation of the study. While purely descriptive approaches may rely upon a single case, investigations that aim to develop or extend
existing concepts necessitate multiple cases. Studies seeking to confirm existing theories often employ what Flyvbjerg (2003) denotes as a stratified case selection technique, focusing explicitly upon individual cases that shed light upon the population as a whole. These can be cases that are either the most or the least likely to confirm underlying concepts. When exploring new ground with the purpose of developing original concepts, Eisenhardt (1989) proposes employing a theoretical sampling strategy to identify specific cases that correspond to key constructs or phenomena of interest. Meanwhile, Yin (1994) suggests that researchers use either a literal replication logic (i.e. similar cases) or a theoretical replication (cases that differ along one crucial variable) to test and confirm emerging constructs.

The theoretical focus and research objectives of this study similarly places specific demands upon case selection. To begin with, I aim to investigate a specific phenomenon (foreignness) and its effects; hence, I require an empirical phenomenon that highlights these aspects. Secondly, the motivation of the study is to develop findings that can be theoretically generalizable to the larger population of foreign firms; this necessitates selecting cases that increase validity, for example by increasing variance in the independent variable of foreignness (King et al., 1994). The empirical phenomenon of choice has already been introduced in the initial section of this chapter; below, I discuss in greater detail the methodological motivations for choosing loan syndication, as well as the strategies used in identifying the specific organization-level cases.

Selection of Empirical Phenomenon: The Case for Loan Syndication

Based upon the research framework presented in Chapter 2, a basic criterion in selecting the empirical phenomenon of investigation was that it be norm-breaking in nature. As noted in the discussion above, loan syndication conforms to this condition since it challenges the prevailing practices of the Japanese main bank system in a number of different ways.

In addition, however, the empirical phenomenon of study also needed to control for differences in firm-specific capabilities, knowledge, and experience. As noted in Chapter 2, the innovative and entrepreneurial nature of MNEs in host countries has long been recognized in international business; however, this role has generally been ascribed to firm-specific capabilities, knowledge structures, and
resources (Birkinshaw & Hood, 1998; Dunning, 1980; Hennart 1982; Kogut & Zander, 1993). In the pilot study on Hartford Life in Chapter 3, foreignness appears to have been an advantage for the firm, yet we cannot say for certain if this effect was due instead to superior knowledge or experience unique to Hartford, as opposed to foreign organizations in general. A suitable empirical phenomenon, hence, needs to control for these confounding effects.

Loan syndication does this for several reasons. To begin with, loan syndication is characterized by low technical barriers to entry, in other words it is a relatively simple and straightforward lending strategy exhibiting little causal ambiguity (Reed & DeFillippi, 1990) or inimitable sources of competitive advantage (Barney, 1991). In addition, Japanese banks were actively involved in loan syndication outside Japan for over two decades before they subsequently adopted its practice on the domestic market (Seo, 2004). As a result, Japanese banks had access to both the necessary experience and knowledge needed for adopting loan syndication. This minimizes the effect of firm-specific skills upon differences in adoption.

An additional important reason for choosing loan syndication as the phenomenon of investigation is that it corresponded to an important need among Japanese banks. This is crucial because it controls for the possibility that adoption and implementation processes may have differed simply due to variations in strategic focus and market segmentation. Organizations do not actively seek to implement any new practice simply because they have the ability to do so; rather, new practices and products must satisfy specific needs and demands in order to be considered for adoption. As I further discuss in the subsequent chapter, the financial crisis of the 1990s had put considerable pressure on Japanese banks to adopt alternative lending practices that would allow them to both increase revenues and diversify their underlying loan portfolios; loan syndication offered a potential solution to both of these demands. By focusing upon a practice that had the potential to solve existing problems, I thus eliminate some of the alternative possible explanations for differences in introduction patterns.

A final consideration in selecting loan syndication as the empirical phenomenon was its overall researchability (King et al., 1994). Emerging phenomena may not be fully developed or understood, thereby impeding an empirical investigation; conversely, “finished” phenomena that occurred in the past may be difficult to access and
Chapter 4

interpret (Stake, 1994). Loan syndication finds a middle ground between these two extremes; while the first domestic Japanese loan syndications did not emerge until the late 1990s, loan syndication had grown into a legitimate and acceptable lending practice by 2007. As a result, many of the most important players are still active in the market, even as the phenomenon itself has a long and rich history.

Loan syndication was, hence, selected as the empirical phenomenon because: a) it had high construct validity (Yin, 1994), i.e. it corresponds to the underlying construct of radical strategic action as put forth by Greenwood & Hinings (1996); b) it exemplifies a theoretical sampling strategy by particularly emphasizing the impact of foreignness while controlling for other confounding effects (Eisenhardt, 1989); and c) it constituted high researchability through a combination of sufficient data and access to key informants.

Selection of Host Country: Japan as an Extreme Case

In a study of the effects of foreignness, not only the empirical phenomenon but also the selection of host country environment has central bearing upon generalizability and validity. Similar to the case of loan syndication, there were clear methodological reasons for choosing Japan as the study’s national context.

To begin with, this study emphasizes the possible effects of foreignness upon organizational action as a result of outsidership and a lack of embeddedness in local contexts. However, MNE subsidiaries as a group may also be able to undertake specific actions due to their substantial economic or political power in host country environments (c.f. Rosenzweig & Singh 1991); this effect, which is separate from foreignness itself, may be particularly evident in less developed nations or weaker markets. By choosing the world’s second largest economy as the empirical venue for the study, the confounding influence of political and economic power on organizational action is minimized.

Moreover, Japan is a suitable venue due to the specific nature of its institutional environment. During the post-war period, Japan’s domestic banking and financial system was insulated from foreign pressures and competition to a much larger extent than most other industrialized nations. FDI in the financial sectors, for example, did not significantly increase until the mid 1990s as a result of Japanese deregulation. This isolation led to a unique banking system whose underlying norms, taken-for-granted behaviors, and routines differed
significantly from those of other countries. When banking institutions from abroad subsequently entered Japan, the normative "clashes" between MNE behavior and local practices were heightened. From this perspective, Japan hence exemplifies an "extreme case" (Yin, 1994) that serves to further illuminate and highlight the phenomenon under investigation.

Selection of Organizational Cases: a Theoretical Replication Approach

Similar to the choice of empirical phenomenon and host country setting, the selection of organizational cases was based upon a number of criteria in order to increase external validity and generalizability. To begin with, this study explicitly seeks to investigate effects and mechanisms that result due to differences in a core organizational trait (i.e. foreignness). In contrast to a literal replication logic, which analyzes cases sequentially as repeated experiments (c.f. Brown & Eisenhardt, 1997) I thus adopted a theoretical replication logic (Yin, 1994); this called specifically for selecting organizations that varied along the independent variable, thereby including both foreign and domestic organizations in the sample.

In selecting suitable foreign banks for investigation, I further sought to satisfy a number of methodological and theoretical criterions. To begin with, the banks should not be recent entrants to the Japanese market. As noted earlier, foreignness is often heightened during entry, leading to effects that may subside over the longer term due to learning. By choosing an organization with a long history on the local market, I sought to eliminate overlap between the effects of being new and the effects of being foreign.

Secondly, because size has been shown to have a significant effect upon survival, performance and the propensity for action, I also endeavored to choose foreign banks whose size and standing on the market were as comparable as possible to domestic actors. Finally, the foreign organizations selected were also ones that were involved in loan syndication from the very beginning, as opposed to ones that entered the market at a later stage. This selection criterion was included because radical actions may become legitimized and lose some of their norm-deviant character over time. Since the central aim of the dissertation is to focus upon the linkage between foreignness and radical action per se, early market entry into loan syndication was crucial.
Based upon these criteria, I narrowed the possible pool of organizations to three banks, including Citibank of the United States, Germany's Deutsche Bank, and France's Calyon. Due to constraints in both time and access, the final in-depth study focuses upon only one of these: Citibank.

In order to contrast my findings from the foreign bank, I subsequently selected a Japanese banking entity that was as similar to Citibank as possible. The final selection fell to the Industrial Bank of Japan (IBJ), which has subsequently become part of the Mizuho Financial Group. IBJ was chosen because it had significant international experience of loan syndication, thereby, further controlling for firm-specific effects upon adoption and implementation. IBJ was also a fitting object of comparison because it began adopting and implementing loan syndication at approximately the same time as Citibank. Finally, in comparison to other Japanese banks, IBJ is also notable for being a somewhat smaller organization and for lacking a large retail division; both of these characteristics also made it more similar to Citibank.

In addition to selecting a foreign and Japanese bank, I also sought to increase variance in the independent variable by including a foreign-owned Japanese bank in the sample. Foreign-owned domestic entities were of interest because their levels of foreignness were uncertain. On one hand, they are headquartered in Japan and have limited international activity; on the other hand, they are majority owned by foreigners, a large portion of their senior management is either foreign or has previous experience from foreign banks, and they have also sought to implement routines and practices similar to those of foreign firms. There are only three foreign-owned Japanese banks in existence on the market; hence, my selection opportunity was somewhat limited. Of these three, Shinsei Bank is the oldest and largest, roughly on par with Citibank. As a result, I centered my investigation upon this organization.

One issue that arose in the study of the foreign-owned Japanese banks was the fact that they were late entrants into the loan syndication, entering the market only in 2001 (as compared to 1997 and 1998 for Citibank and IBJ, respectively). As a result, the analysis is centered primarily upon a comparison between Citibank and IBJ/Mizuho. The findings from Shinsei were, in turn, used for validation and refutation (Spiggle, 1994), effectively increasing internal validity and giving added depth to the results (see further below).
4.2 below compares and contrasts some of the central characteristics of the three focal organizations (see Appendix 1 for more detailed information on each bank).

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Citibank</th>
<th>Mizuho</th>
<th>Shinsei</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headquarter location</td>
<td>New York, U.S.A.</td>
<td>Tokyo, Japan</td>
<td>Tokyo, Japan</td>
</tr>
<tr>
<td>Founding</td>
<td>1950</td>
<td>1950</td>
<td>1952</td>
</tr>
<tr>
<td>CEO nationality</td>
<td>United States</td>
<td>Japanese</td>
<td>United States</td>
</tr>
<tr>
<td>No. of employees (2007)</td>
<td>1,647</td>
<td>49,000⁶</td>
<td>5,245</td>
</tr>
<tr>
<td>Revenues (2007; BN JPY)</td>
<td>175.5</td>
<td>2,421.1</td>
<td>262.6</td>
</tr>
<tr>
<td>Earnings (2007; BN JPY)</td>
<td>24.6</td>
<td>-88.8</td>
<td>60.1</td>
</tr>
<tr>
<td>Membership in Japanese Banker’s Association</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

4.4 Data Collection Methods

Since I wanted to understand mechanism and processes, the data collection centrally relied upon interviews with organizational informants. As loan syndication was adopted relatively recently, I was fortunate enough to have access to all of the key players at each of the organizations involved in the process. While some of these were still working at the focal firms, many had moved on or left Japan completely. Through contacts and introductions, however, I was able to track down and interview virtually all of the core players. I also interviewed analysts and consultants who had general knowledge of the industry’s development to corroborate and fact-check findings from the interviews.

In addition to interviews, I also relied upon secondary data, including publications in newspapers and journals, annual reports, internal memos and company press-releases. I also gained access to an

---

⁴Founding is defined as the year operations started after WW2. For IBJ/Mizuho, I use IBJ’s founding year; for Shinsei, I used that of the Long Term Credit Bank.

⁵Nationality of CEO for Citibank is that of the Japanese subsidiary since this is the primary unit of analysis.

⁶Employee numbers are only available for the consolidated Mizuho Financial Group which includes Mizuho Corporate Bank, Mizuho Bank, Mizuho Trust Bank and Mizuho Securities.
extensive dataset. Each of these data sources is described in greater detail below.

Interviewing

Interviews are one of the most potent methods for accessing and understanding the underlying rationales, beliefs, and values of individuals (Fontana & Frey, 1994; Rubin & Rubin, 2005); they allow flexibility and reflection over issues and subjects interactively with the interviewee. Interviews are also useful to understand past events that may be unobservable to the investigator, especially when formal records of the events do not exist or are unavailable to the researcher (de Vaus, 2001). As a result, interviewing was the primary method used to gain an understanding of how and why managers at foreign and Japanese banks adopted loan syndication. In particular, the interviews sought to understand the ability and willingness to adopt loan syndication at each specific organization.

To focus the interview around the specific topic of interest and avoid biases, I adopted a semi-structured approach to the interview process. This entailed carefully constructing a set of questions to be addressed to each respondent and to simultaneously include room for divergence in order to follow interesting leads and comments by the respondent. This interview strategy is particularly useful when the investigator has a specific issue to explore, but where the specific details of the issue may be diffuse or unknown (Rubin & Rubin, 2005).

The questions were directly derived from the theoretical framework, focusing in particular upon the underlying rationales for adopting loan syndication and its subsequent implementation. The interviews also covered aspects concerning the overall development of the syndicated loan market in Japan; the motivation for including these questions was partially to understand the role of the specific organization in these processes over time, as well as its views and understanding of other actors involved in the process; these included regulators, competitors, and customers.

Constructing Interview Questions

The structured questions addressed to the informants were directly derived from the theoretical framework and subsequently divided into different groupings and headings. King et al. (1994) suggest that comparative case studies are significantly improved when the data
collection is systematized across units. In particular, the variables and information collected should be guided by the underlying theoretical framework and uniformly applied to all research subjects (See also George & McKeown, 1985). In total, 22 initial questions, divided into 8 general subject groups, were devised for the interviews (for a full list of questions, see Appendix 2).

It is important to note that foreignness was not one of the main subjects of the interviews. Although I did ask each bank how they viewed the strategies and activities at their competitors (including foreign banks) and also queried banks about their experiences in the Japanese market and how this compared to the home market, I never directly asked whether foreignness had a positive or negative impact upon the ability to undertake radical strategic action. As further discussed below, one of the primary reasons for not including the subject of foreignness in the questions was that it had the potential to bias both the answers, as well as the overall willingness of interviewee subjects to take part in the interview. Instead, foreignness was a construct that emerged from the subsequent analysis, and was then linked to the overall theoretical framework.

Moreover, due to the long list of questions and the need to maintain flexibility in the interview process, the full list of questions were rarely - if ever - addressed during one full interview. Instead, they were completed during the course of several interview meetings and at times through e-mail contact or by telephone.

Finally, while the goal was to organize the interview around structured and standardized questions, the uncertainty of the interview process, as well as differences among the various organizations, meant that additional questions were also included. These additional questions were of a clarifying nature, and were also directed at specific situations. In the case of Mizuho, for example, I specifically asked why the organization had not introduced loan syndication earlier. In the case of foreign banks, I asked whether it was difficult to gain access to local customers because the banks were foreign and, thus, had weaker ties than their traditional rivals.

Organizing the Interview Data

In almost all cases, the interviews were done face to face, often in meeting rooms at the focal organization. Whenever the interviewee had requested to see the material prior to the interview, the 10 most
Chapter 4

relevant research questions that had been selected from the presented questions, were e-mailed in advance. The interviews ranged from 45 minutes to 2 hours, with the vast majority lasting one hour; in total, I conducted 78 interviews with employees from 36 different companies and organizations during the span of the study. Of these interviews, 47 were conducted at 23 foreign organizations while the remaining 30 were conducted at 13 Japanese companies and government bodies. Of the respondents, 47 were Japanese nationals, of which 24 worked at foreign companies. Among the 30 foreign respondents, 6 worked at Japanese banks while the rest were employed by foreign companies (for a full list, see Appendix 3).

While informants were sometimes alone, the interview was often conducted in the presence of a third party, usually the person who had arranged the contact. As a result, some interviews were conducted one-on-one, while others took on the nature of focus groups and discussions about the underlying themes. With the permission of the interviewee, each face-to-face interview was recorded. In some cases, the interviews were done over the phone. Each interview was transcribed directly afterwards. Interviews conducted in Japanese were transcribed in Japanese, which I translated into English by myself; native Japanese speakers fluent in English subsequently checked these translations. Whenever the interviewee requested, the full transcripts were e-mailed for review and comments.

When interviewee comments were inaudible or confusing, these were highlighted and resubmitted to the interviewees for comments and clarifications, either via e-mail or in subsequent interview meetings. Ideas and questions that arose during the transcription process were recorded directly into the transcription document. While direct interviewing has clear advantages, it is also fraught with dangers including interviewer and respondent bias, as well as limits to organizational access. These problems were compounded by the fact that, as a foreign researcher, I encountered some culture and industry-specific difficulties of conducting interviews in the Japanese banking industry. I discuss below each of these challenges, as well as strategies for overcoming them.

Interviewer and Respondent Bias

Interviewers may bias the answers of their subjects, either by posing leading questions or signaling their own personal beliefs and stances.
The Paradox of Foreignness

through comments, body language or follow-up questions (Fontana & Frey, 1994). Interviewees may, in turn, bias their responses, either unconsciously through erroneous reconstruction of past events (ibid) or more directly by seeking to provide the answers they believe the interviewee is searching for.

In order to limit bias on my part as an interviewer, I sought to develop neutral questions, as presented in Appendix 2. Moreover, I also sought to avoid asking direct questions about foreignness or the difference between foreign and Japanese firms. Directly asking managers at multinational subsidiaries about foreignness might lead to lengthy opinionated discussions about their Japanese competitors or Japan in general. Directly asking about foreignness at Japanese organizations could in turn give the impression that the researcher was insinuating Japanese firms were somehow inferior or less capable than their foreign counterparts, or vice-versa. Moreover, specifically asking how foreignness impacted the ability to undertake strategic action could potentially lead the informant away from other competing explanations. When the subject of foreignness was broached, it was either in an overall context (for example: "How do you view your competitors, both foreign and Japanese?") or in relation to a specific organization and situation (for example: "How do your practices in Japan compare to the practices in your home country?").

Being an Outsider Investigator in Japan

Interview results may be biased not only by the nature of the questions; rather, they may also be due to the respondent's perceptions or beliefs about the interviewer (Fontana & Frey, 1994); informants may alter their comments depending upon what they believe the investigator wants to hear, or depending upon their own biases and judgments of the investigator. The role of the investigator's identity is especially crucial to take into account during cross-cultural or international business settings (Tsang, 1998).

These problems are potentially magnified in the context of Japan where a number of foreign scholars have noted the difficulty of conducting in-depth interviewing (see for example discussion in Bestor, Steinhoff, & Bestor, 2003). In particular, Japanese culture has been characterized as containing a strong division between the internal or familiar (uchi) and the external or foreign (soto) (Kuwayama, 1992; Rosenberger, 1992). This relates not only to a difference between
Chapter 4

Japanese and foreigners; it also to members and non-members of Japanese groups and organizations, including companies, families, and townships. This is particularly the case in Japanese firms; as Rohlen (1974) notes in his study of a Japanese bank, individuals hold a particularly strong sense of identity with their work organization and its members.

This sense of the internal and external makes qualitative social research in Japan difficult (Bestor, Steinhoff, & Bestor, 2003). Access to organizations is time-consuming and critically dependent upon personal introductions. Even when the interviewer has personal introductions, multiple meetings and interviews are often necessary to establish trust and rapport between the informants and the interviewee.

Access to the Japanese Financial Industry

As organizations with highly sensitive data about ongoing deals and stock market analysis, financial firms are particularly careful and often reluctant to devolve too much information to outsiders. This is both for competitive reasons and for legal compliance issues as leaked information may lead to lawsuits and regulatory punishment. Moreover, many of the interviewees at the organizations were upper level managers, what Thomas (1993) refers to as "elites". As Marshall & Rossman (1999) note, elite interviewing places particular demands upon the interviewer in terms of access, demonstrating personal knowledge of the subject matter, and being able to cajole the interviewee into following the interviewer's guide, as opposed to his or her own agenda (Marshall & Rossman, 1999:114).

In general, Japanese corporations may also be suspicious of providing information to outsiders. Scholars with whom I spoke who are active in Japan warned me that Japanese academia does not benefit from the tradition of ethnographic organizational research that exists in many countries. Several individuals with long histories of working in Japan whom I consulted before doing the project told me frankely that if it were their company, they would be highly suspicious of my intentions; in particular, as a foreigner, they would suspect that I was working for a competing foreign bank and trying to find out more about their internal operations.
The Paradox of Foreignness

Identifying Interview Subjects

In order to overcome these challenges and gain access to the interview subjects, I began with a large number of background interviews and meetings with the goal of developing relationships and introductions to suitable informants. In order to cast the net of potential contacts as wide as possible I was purposely vague in these initial contacts, specifying only that I sought to speak with the individuals working at foreign and Japanese banks.

The result of this initial “fishing expedition” was a total of 30 interviewees from various organizations, departments, and functions. Interviews with this initial group were largely unstructured and explorative, focusing upon developments in the Japanese lending system and the role of various organizations and actors. At the end of each meeting, I specifically asked the informants whether they knew anyone who worked with syndicated loans to whom they would be willing to introduce me.

In most cases, the initial contacts agreed to provide further introductions; these subsequent meetings produced further access. Through this snowball sampling process, I gradually came in contact with the key informants in each of the focal organizations. Meetings and interviews with these contacts and potential introducers took place over a span of 12 months and involved several trips to Japan, as well as interviews via telephone.

Initial Meetings with the Informants: Framing the Research Subject and Myself

During the initial meetings with the specific organizational informants, I primarily focused upon establishing trust and interest in my study. In order to establish a rapport with the informant, I began each interview with an introduction of my background, and myself including my personal experiences of working in the financial industry in Tokyo, living in Japan for a considerable length of time, and attending Hitotsubashi University as an exchange student.

Highlighting my close affiliation with Japan, the financial industry, and a local university was purposely done to achieve legitimacy in the eyes of the interviewees. It should be emphasized that my attempts to achieve trust and acceptance cannot be equated with becoming an internal member (i.e. entering the uchi) of either the organization or of the Japanese culture. As a Caucasian, my appearance automatically signaled that I was an outsider. Interestingly, however, I found that
this outsidership often had beneficial effects. Several of the Japanese interviewees - both at the foreign and Japanese banks - were happy to talk to a foreigner with an interest in Japan. One individual introduced me to a new contact by e-mail, writing: “He’s actually a foreigner who knows something about Japan so it could be interesting.”

In constructing my identity as the foreigner, one critical question was the use of language. I speak Japanese well and have worked in the Japanese financial industry; hence, I had the advantage of using Japanese when my interviewees were uncomfortable speaking English. At the same time, however, I also noticed that many informants with a command of English were more frank and direct in this language. Japanese employs a wide range of honorific forms, the uses of which depend largely upon the internal hierarchies of those who are speaking. By using English, the honorifics were removed and the discussion often became more direct. At times, I felt the use of English also made it easier for me to ask and receive answers to sensitive questions that might have been difficult to phrase in the more honorific Japanese. I therefore sought to balance the use of English and the opportunity to play the part of the foreigner with the use of Japanese and its role in emphasizing my connection and understanding of the local context.

Subsequent Meetings with Informants and Further Questions

I asked whether it would be possible to set up subsequent meetings when the initial interview with each organizational informant had come to an end. In some cases, when I felt it was appropriate, I also took this opportunity to ask for permission to do a formal case study of the organization and its adoption of loan syndication. In one case, I waited until the end of the third interview before making this formal proposal. The informants from all of the organizations subsequently agreed to the case study.

In follow-up meetings with the informants, I reviewed the results of the previous interview, identified areas I wanted clarification and explanation, as well as any new questions that developed during the course of the analysis. Thanks to the gradual build-up of trust and relationship, I was able to dig further in these subsequent interviews and pose questions that were omitted from the original meetings due to their sensitive nature (for example: questions concerning why the organization was late in adopting loan syndication, what problems it faced in implementation, etc). The interviewing process at each
organization ended when the information became redundant and reached a point of theoretical saturation (Eisenhardt, 1989).

4.5 Archival Materials

As noted above, one of the drawbacks of primary interview data is its potential for bias as individual informants seek to correctly recall past events. To limit this risk, I used secondary data in the form of text documents to verify the primary interview findings. The document data also had the additional benefit of deepening my understanding of external contextual factors, bringing into relief the institutional environment of the Japanese banking industry and its changing norms, values, and practices.

Data was collected from a number of local data sources and subsequently content analyzed for any mention and attitudes towards both foreignness and loan syndication. It should be noted that, while many methodological approaches call for coding documents into quantitative data samples, coding is also limited in its ability to describe particular aspects in a text (Denizen & Lincoln, 1994). Instead, I used the document material primarily as a source of information for understanding context, as opposed to definitive coding. A further reason for adopting an interpretive, as opposed to coding approach to the document data, is that the availability of documents significantly differed between the organizations; as a result, even if coding had been undertaken, it would have been difficult to compare datasets across organizations (Yin, 1994).

The internal publications garnered from individual organizations ranged from speeches, memos, and research reports to power point presentations and planning schedules for the implementation of the loan syndication. Public information, such as press releases and annual reports, were downloaded through web sites and, in some cases, were directly requested from the company. In the case of IBJ, as well as the defunct Long Term Credit Bank of Japan (the predecessor to Shinsei Bank), detailed company histories were also accessed. A breakdown of the types of documents accessed for each banking organization is provided in Table 4-3; Appendix 4 provides a full list of the documents.
Table 4-3: Documents From Organizations

<table>
<thead>
<tr>
<th></th>
<th>Internal documents</th>
<th>Reports, studies</th>
<th>Annual Reports</th>
<th>Press Releases</th>
<th>Presentations for external use</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBJ/Mizuho</td>
<td>3</td>
<td>0</td>
<td>8</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>Shinsei</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Citibank</td>
<td>2</td>
<td>8</td>
<td>3</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Media publications from various sources, as well as third party research reports, were also accessed. The media publications were primarily accessed using the Factiva\(^7\) search engine and the Nikkei Telecom 21\(^8\) article database. These search engines yielded a total of 5,109 magazine, newspaper, and trade publication journals that were subsequently whittled down to 150 core articles that specifically focused upon loan syndication.

Industry journals that have been reviewed include *Kinyuu Zaisei Jijou* and *Kinyuu Journal*: weekly publications aimed at professionals in the financial services industry, as well as the *Kinyuu Houmu Jijou* (Financial Law Report): a monthly publication for legal professionals in finance. Additionally, monthly reports from both the Bank of Japan and individual banks were screened for articles and discussions relating to loan syndication, loan trading, and the changing nature of the main bank system. Third party reports on the state of loan syndication by Moody’s and Standard & Poor’s, as well as Thomson Financial were also accessed. A full list of the specialized journals and monthly banking reports, along with the number of accessed articles in each, is provided in Table 4-4.

The goal of the article searches in the publications was to build a database of the discussion and events surrounding the introduction of loan syndication in Japan. As previously noted, Japanese banks had been active in this area since the late 1970s; moreover, the introduction of loan syndication and attitudes towards this specific practice changed over time. As a result, the article searches were done

\(^7\) Factiva is a multilingual news source covering many of the major Japanese newspapers. Searches in Factiva were done in both English and Japanese under specific subject headings, including for example “loan syndication”, “main bank system” and “loan trading”.

\(^8\) Nikkei Telecom 21 is a Japanese language database with a wider coverage of Japanese newspaper than Factiva; it was used to augment the initial Factiva searches using the same subject headings.
from 1978 (the oldest possible search year for the Factiva database) and onwards.

Table 4-4: Articles From Specialized Publications

<table>
<thead>
<tr>
<th>Publication name</th>
<th>Article yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kinyuu Zaisei Jijou</td>
<td>32</td>
</tr>
<tr>
<td>Kinyuu Journal</td>
<td>6</td>
</tr>
<tr>
<td>Kinyuu Houmu Jijou</td>
<td>4</td>
</tr>
<tr>
<td>Moody's</td>
<td>4</td>
</tr>
<tr>
<td>Standard &amp; Poor's</td>
<td>12</td>
</tr>
<tr>
<td>Thomson Financial</td>
<td>14</td>
</tr>
<tr>
<td>Kinyuu Business</td>
<td>6</td>
</tr>
<tr>
<td>Kindai Sales</td>
<td>8</td>
</tr>
<tr>
<td>Shouken Anarisuto Journal</td>
<td>10</td>
</tr>
</tbody>
</table>

4.6 Quantitative Data Set

In order to augment the document data sources accessed through various publications, I also utilized a quantitative data set to measure the development of syndicated loans. As with the data gleaned from published documents, the role of the dataset was to verify interview statements made by interviewees, as well as to gain a broader macro-level understanding of how loan syndication evolved in Japan and its adoption sequence.

The dataset was obtained from Thomson Financial and contains information on 10,414 syndicated loans that have been undertaken in Japan since 1983. This information pertains to syndicated loans where the borrower is of Japanese origin; the lending institutions are both Japanese and foreign. The dataset contains complete information on borrowers, primary bookrunners, agents and underwriters, as well as co-underwriters and participants. It also includes additional information regarding the use of the fund proceeds and whether the funds were denominated in a foreign currency or Japanese yen.

4.7 Data Analysis Methods

Qualitative data analysis techniques vary widely and depend crucially upon the underlying research questions and goals of the study. A
researcher emphasizing meanings and mechanisms might, for example, adopt an in-depth and holistic narrative approach; in contrast, scholars emphasizing causality and prediction through variable models would presumably be more inclined to utilize quantitative coding or, what Langley (1999) calls, a synthetic analysis strategy (see Eisenhardt, 1989 for an example).

As noted above, the primary unit of analysis in this study is the process by which banks introduced loan syndication; I specifically seek to highlight the effects of foreignness by comparing these processes across organizations with varying degrees of foreignness. Explicating these processes and subsequently linking them to foreignness places two specific criterion upon the method of analysis. To begin with, I needed to understand how the various banks adopted and introduced loan syndication; this particularly called for identifying key events that occurred during a specific period of time. By contrasting these events across the organizations I was, thus, able to identify key differences between foreign and domestic banks.

Differences in adoption processes may, however, be due to any number of factors; hence, they are not sufficient in making any substantial claim about the effects of foreignness on their own. To understand exactly how foreignness impacts norm-breaking, I also needed to understand why the specific events occurred; in other words, what are the underlying reasons for why banks followed specific introduction patterns. This question crucially necessitates identifying and validating the underlying mechanisms that drove the various adoption processes.

Taken together, the research questions calls for identifying both specific constructs that are comparable across organizations, as well as the mechanisms that drive differences in these constructs. To do this, I combine several analysis strategies and combine them in several steps as described below.

**Data Coding**

The initial task of the data analysis involved coding the qualitative data gathered from interviews and secondary data into common categories and themes. The underlying motivation for this initial coding was to bring order to the vast pool of jumbled data collected. At the same time, however, I also wanted to avoid generalizing too quickly; as a result, coding during this initial stage was detailed, with many categories
The Paradox of Foreignness

represented by only two or three data points. I specifically used a grounded theory approach (Fendt & Sachs, 2008); these descriptions and categorizations were therefore, generated inductively and based upon the data itself, rather than upon pre-existing constructs or concepts. Moreover, I began the coding sequence before the full range of interviews were finished – this allowed me to see what themes had high response rates, as well as which areas merited further questions.

The coding was done for each bank separately; an initial coding sequence for data on Citibank yielded 198 different categories with a total of 324 data points; corresponding numbers for IBJ/Mizuho and Shinsei Bank were 215/358 and 70/158, respectively.

After completing the initial coding sequences, I subsequently sought to aggregate the data into larger themes. This second iteration of coding was based partially upon theoretical concepts or events for which I was actively looking; this included perceptions towards foreign firms by Japanese banks and vice-versa, customer reactions to loan syndication, and so on. During this process, several new themes and ideas began to emerge; for example, I noted several data points addressing the subject of legitimization. I initially compared data points to each other to try and figure out what the underlying theme was; as more and more data points were added, the theme began to take shape and I no longer needed to compare data points with each other; instead, I could relate them directly to legitimacy.

In this way, the initial data points were aggregated into larger themes and topics. The themes themselves represent three different types. Some concern events or phases that occurred during the introduction of loan syndication. These include: challenges to introducing the practice, strategies for overcoming these challenges, etc. Others had more to do with meanings, perceptions, and mechanisms. These include: attitudes to loan syndication, internal routines and practices, and perceptions of other competitors. A third group relates to background information and context, covering how the overall market worked, etc. Table 4-5 provides some representative examples of data points and the evolution of the coding themes. The aggregation process ended when I had established distinct categories that offered an overview of the individual adoption processes. Appendixes 5, 6 and 7 show the full categories and themes for the final two iterations of each bank.
Within Case Analysis: Constructing Case Histories

As noted, a core aim of the analysis was to discover how organizations introduced loan syndication and their reasons for doing so. The next step of the analysis process involved creating detailed case histories based upon the categories that emerged from the coding. Since I sought to highlight a causal chain, these case histories were organized in a temporal fashion (de Vaus, 2001; Yin, 1994), mainly focusing upon the events and steps involved in the introduction process.

In order to understand why these processes took their specific shape and form, I also had to place them within the specific context of the organizations; as a result, the temporal descriptions were augmented with non-event categories, including internal process and routines at the banks, attitudes to competitors and customers, and historical experience, etc.

While the case histories were grounded in the categories they took the form of narratives; combining specific temporal events with non-event categories resulted in a thick and holistic description of the banks and their introduction processes. The reason for adopting a narrative approach as opposed to immediately comparing the various categories across cases was that it provided a more accurate account of the introduction; this allowed me both to organize the stories and to provide detail and context, which are hard to highlight when solely relying upon categorization (Langley, 1999).

The construction of the case history narratives was a highly iterative process; in order to verify accuracy, I constantly moved between the emerging text and the data points, revisiting the coded themes in order to understand their position in the adoption and implementation process. Significantly, the iterative process also
contributed to a greater understanding for why banks chose their specific processes. I was, therefore, able to clarify the mechanisms that led to specific bank behavior by searching for links between specific processes and non-process themes such as perceptions, attitudes, internal norms, and organizational history.

This iterative process of travelling between data and narrative also heightened the validity of the findings. I explicitly searched for data that offered systematic\(^9\) contradictions to the emerging narrative and explanations by employing a refutation strategy (Spiggle, 1994). I also adopted a process-tracing approach (Yin, 1994), seeking to explicate in greater detail the micro-level mechanisms that linked the various phases and events of the process.

The case history narrative hence served as an effective within-case analysis form because it structured coded data in a temporal fashion and linked themes in a logical and consistent manner. The process can be described as one of explanation building and subsequent verification using blocks of pre-coded data. As a result of this approach, I subsequently emerged with specific constructs and process units that served to explain both how the adoption processes took place, as well as why this specific process took form. These constructs emerged both as a result of the organization of the narrative, and by relating findings to pre-existing theoretical concepts. Parallel to the narrative, these constructs were linked together in a process model, explicating the steps and the reasoning behind each bank's adoption and implementation process.

Based upon the case study, I subsequently emerged with process-models explaining both how each organization adopted and implemented loan syndication, as well why they embarked upon their specific processes. The overall strategy for the within-case analysis can be seen as one of disassembling rich data into specific units, and then reassembling these into ordered and detailed narrative of a specific process. Based upon the narrative and pre-existing theoretical concepts, a process-model was subsequently developed for each bank, which served as the basis for the subsequent between-case analysis. Figure 4-4 graphically highlights this analysis process.

---

\(^9\) Systematic contradiction, which negates validity, can be contrasted with non-systematic or random errors that reduce reliability and accuracy, but does not necessarily hamper validity (Adcock & Collier 2001)
After constructing process models for each of the organizations, the second step of the analysis called for comparing these in order to refine the observed constructs and mechanisms. In particular, the central effects of foreignness could only become clear once the similarities and differences in adoption process had been systematically compared across the three organizations.

An initial step in the between-case analysis was to compare differences in the actual process; in other words, I focused upon identifying differences in actual steps and events (i.e. how loan syndication was adopted and implemented). This involved locating value differences within similar constructs; for example, I noted that, while both Citibank and IBJ/Mizuho faced external barriers to adoption, the kind and degree of these barriers varied. This also led to identifying constructs and events that were evident at one bank, but absent in another; for example, legitimization strategies were a central part of IBJ/Mizuho’s adoption and implementation strategies, but...
were largely missing during Citibank's introduction of loan syndication. The comparison covered not only specific events and phases; it also dealt with other non-process related constructs, such as internal routines and processes, external image, attitudes, and beliefs about the market, etc.

Having identified differences across the three organizations, the next step involved building explanations for these differences. This was done by revisiting and comparing underlying data from the various cases, as well as by contrasting the findings with existing theory and the underlying research framework. In the case of differences in legitimization strategies, I sought to understand the different legitimization needs of Citi and IBJ/Mizuho. I subsequently compared these needs with previous research on legitimacy and radical change.

Based upon this analysis, I constructed an initial process-model of how foreignness related to the adoption of loan syndication. The process model was built in reverse. I started by observing differences in the timing and nature of the adopted loan syndication product, then worked my way backward in the data in order to identify the causal mechanisms that underlay these differences. This procedure took me step-by-step from the final introduction of loan syndication, through adoption and implementation strategies, barriers to adoption and implementation, internal and external organizational characteristics and finally, foreignness itself (note that in Chapters 9 and 10, the analysis is presented in terms of causal effects, starting with foreignness).

Similar to the within-case analysis, the initial process model was subsequently validated using falsification and process-tracing; this essentially involved applying emergent theoretical insights to the existing data and theory in order to validate the claims. Based upon these findings, the underlying constructs, linking mechanisms, and causal explanations were revised and adapted as necessary, leading to a refined model. This iterative process, shown in Figure 4-5, continued until the data could yield no further information to alter the underlying framework.

By comparing and contrasting the findings of the individual process models, and subsequently applying them to the underlying theoretical framework, I developed an overall process-model to explain how foreignness affects the internal adoption and external implementation of norm-breaking radical actions, as presented in Chapter 11.
4.8 Chapter Summary

In introducing the empirical context, research design and methods, this chapter has sought to solidify the conceptual and explorative discussions of the previous chapters into a specific investigative framework. The chapter can, therefore, be seen both as the conclusion to the initial section of the dissertation, as well as a starting point for the subsequent chapters. The idea has been to give the reader a road map by which to understand and interpret the empirical data presented in Chapters 5, 6, 7 and 8. The last three chapters particularly reproduce highlights of the organization-level narrative.
analysis. As a result, they provide the core basis for the subsequent discussion of foreignness and its effects.

Before approaching this more detailed level of analysis, however, we need to answer the initial question of whether foreignness does, in fact, have a population-level effect. The next chapter approaches this question by comparing when foreign and Japanese banks adopted loan syndication, explicitly placing this adoption pattern within the context of the Japanese banking industry.
Chapter 5

Japanese Loan Syndication: An Industry-Level Perspective

As noted in the introduction of the preceding chapter, the Japanese main bank system differed from loan syndication both in terms of structure, practices and underlying norms and logics. As we shall see, these various facets were moreover deeply institutionalized in the Japanese financial sector; the main bank system characterized everything from the specific knowledge, routines and practices of Japanese banks and corporations, to the financial regulations and economic policies of the Ministry of Finance and the Bank of Japan.

From this perspective it is perhaps not surprising that loan syndication was virtually non-existent on the Japanese lending market for many years. By 2007, however, this previously non-existent and illegitimate practice had emerged as a dominant lending format. Moreover, foreign banks had undertaken its original introduction in 1997, yet 10 years later, 97% of the market share was firmly in the hands of major Japanese banks, the same organizations that had once strictly adhered to the main bank system. What role did foreign organizations play in this evolution? In particular, how did foreignness as a source of differentiation impact the approach of both foreign and domestic banks to this norm-deviant practice?

In this chapter I begin to investigate this question by taking an industry-level perspective on the evolution of loan syndication. In
particular, I explore the political, social and economic contexts surrounding the introduction of loan syndication, as well as the adoption patterns of the foreign and domestic banking populations. A population-level perspective is crucial because as I argue in Chapter 2, foreignness is essentially an exclusionary characteristic, i.e. it sets MNE subsidiaries apart from local actors, regardless of their firm-specific attributes. If foreignness does indeed have an impact on radical strategic action, we would then expect to see significant differences in the adoption patterns of the foreign and domestic populations of firms.

5.1 Adopting Loan Syndication: A Population-Level Comparison

The first officially recognized domestic Japanese syndicated loan was announced on February 20, 1998. The deal consisted of a 70 billion yen revolving letter of credit, arranged by Citibank of the United States for NEC, a large Japanese electronics maker. Citibank was joined on the deal by a number of foreign banks, including Chase Manhattan, Deutsche Bank, JP Morgan Securities and Union Bank of Switzerland (UBS). Notably, no Japanese banks were included in the deal.

In truth, the NEC deal was the not the very first case of loan syndication in Japan. A few months before the NEC deal, Citibank acted as bookrunner on a loan to Alderney, a Singaporean-owned real estate development company. While Alderney was based in Japan, its foreign ownership meant Japanese banks largely ignored the transaction. Indeed, Citibank had arranged similar facilities for other foreign-owned subsidiaries in the past, including Disney and Fox.

Moreover, Citibank as well as other foreign firms had extended syndicated loans to smaller Japanese consumer credit companies and leasing corporations during the latter 1980s and 1990s. Because these firms were seen as operating on the fringe of the industry and often viewed with skepticism, however, the media and local banks mostly ignored these transactions.

The NEC deal, by contrast, garnered significant attention, both in the media and among Japanese banks. NEC was a major company with long-standing ties to local main banks. For this firm to diverge from its traditional internal banking hierarchy and borrow from a foreign organization was a major break from historical practice. As
Richard Magrann-Wells, in charge of loan syndication at Citibank at the time, noted:

“It was shocking to the Japanese mentality, that Japanese corporates would go knocking on the door of foreign banks and ask for this kind of money.”

Major Japanese financial news outlets reported extensively on the transaction, which also made the first page of the Nikkei financial daily, Japan’s largest economics and business newspaper. The Nikkei described the move as “very uncommon”, but also suggested loan syndication would become more widespread in Japan over the coming years.

Indeed, the NEC deal was soon followed by lending arrangements with a number of major Japanese corporations, including Komatsu (one of the world’s largest makers of heavy machinery), the state-owned telecommunications operator NTT, Sony, Sumitomo Chemical, Fuji Heavy Industries, Ricoh, Yamaha Motor Corporation and leading trading houses such as Mitsubishi Corporation and Sumitomo Corporation.

All of these initial deals were primarily managed and run by foreign firms. In fact, the only notable exception was that of NTT, a state-owned firm; in this case the Union Bank of Switzerland shared the bookrunner position with Sumitomo Bank. Of the 32 deals announced during 1998, 31 were managed by foreign banks.

Moreover, mandated lead arrangers and participants (i.e. second and third tier banks who take part in syndications as lenders) were almost exclusively foreign during this time. Of the 44 banks that took part in loan syndications during 1998, only 4 were Japanese, one of which was the Japan Development bank. These four together accounted for only 9 of the 72 participant roles during that year. The remaining banks were all foreign, hailing from a host of different countries, including Britain, France, Germany, the Netherlands, South Korea, Spain and the United States. These banks were in turn not only major international conglomerates such as Citicorp, Deutsche Bank and UBS, but also included smaller lenders; regional German landesbank lending institutions such as Landesbank Hessen-Thueringen and Landesbank Rheinland-Pflanz took part in syndications, as did the French savings institute Caisse Central.

Notably, the end borrowers of these foreign-led loan syndications represented broad sectors of the economy. While earlier syndications...
by foreign firms had primarily targeted consumer finance companies or major banks, the newly emerging syndication market was tapped by firms from as widely differing industries as consumer products and staples, energy and power, financials, high technology, materials and telecommunications. Moreover, a significant number of borrowers were major Japanese corporations with long-standing ties to the dominant domestic banks.

Throughout the latter 1990s and early 2000s, foreign banks continued to increase their presence on the loan syndication market. In particular, the nationality of entering banks became more diverse, including not only Europe and North America but also institutions from neighboring countries in Asia such as China, Thailand, Singapore and South Korea. South American banks also took part in loan syndication, as did Australian financial firms.

**Loan Syndication and Japanese banks**

While loan syndication was new to Japan, Japanese banks themselves, had considerable experience of loan syndication from international markets. Japanese banks and corporations were first exposed to the concept of loan syndication in the late 1970s as they followed corporate customers expanding into new markets. In 1975, for example, Sanwa Bank arranged a syndicated loan for the Indonesian subsidiary of Teijin, a Japanese textile manufacturer. In 1977, Japanese cement companies similarly negotiated syndicated loans for developing production and export facilities in Thailand.

Over the span of the next ten years, Japanese financial institutions began setting up subsidiaries in foreign locations with the specific purpose of accessing the international loan syndication market. Mitsui Bank for example entered Hong Kong in 1982 in order to strengthen its role in syndicated loans while the Industrial Bank of Japan set up operations in Singapore for similar reasons in 1984. Japanese trust banks and insurance companies adopted similar strategies.

By the late 1980s, Japanese banks were ranked as some of the largest financial institutions in the world, second only to U.S. banks in terms of lending (Seo, 2004). Japanese financial entities were by then lending to governments in industrialized nations, including Sweden, Italy and the UK, as well as to private corporations. In particular, the banks played a key role in underwriting financing for much of the economic expansion in East Asian countries, including Thailand,
Chapter 5

Indonesia, Malaysia and the Philippines. The syndications themselves were mixed, sometimes including only other Japanese banks, but more often involved foreign banking institutions. Moreover, by the end of the decade, Japanese banks were themselves in many cases primary bookrunners, not simply investors or participants in the large loan syndication deals.

While the largest commercial banks were the most active in international loan syndication, life insurers, asset managers and trust banks, as well as smaller local regional banks also ran loan syndications. In 1992 for example, Ehime Bank, the local bank of relatively small and rural Ehime Prefecture, spearheaded a 120 million US dollar syndicated loan to Indonesia involving 32 other institutions, both Japanese and foreign. By 1992, the vast majority of Japanese regional and commercial banks, as well as agricultural co-operatives and other financial entities, had participated in or acted as lead arrangers for loan syndications in the international market.

Figure 5-1: Japanese Press Articles on Loan Syndication

![Bar chart showing the number of Japanese press articles on loan syndication from 1975 to 2007.](Source: Nikkei 21 Telecom)

Loan syndication was hence a familiar concept to Japanese bankers, recurring in Japanese financial press with relative frequency during the 1980s and early 1990s. As Figure 5-1 indicates, the number of
Japanese press articles featuring the term increased steadily over three decades. These articles ranged from small notices of a particular deal to larger in-depth discussions and analysis of the role of Japanese banks in the global syndication market, as well as explanations of the specific characteristics of loan syndication itself.

Despite experience and knowledge of loan syndication, however, Japanese banks were slow to adopt the practice on their home market. Between 1997 and 2000, for example, only 17 new Japanese banks entered the loan syndication market, out of a population of over 350 domestic banking and financial entities. By contrast, the same period saw 37 new foreign banks adopt the practice, out of a population of roughly 100 eligible institutions. Figure 5-2 below traces adoption patterns of the Japanese and foreign population starting from the early 1980s. As the figure clearly illustrates, Japanese banks as a population were significant laggards in introducing syndications aimed at domestic Japanese firms.

Figure 5-2: Adoption of Loan Syndication

Source: Thomson Financial, author's calculations
Japanese Entry and Market Evolution

As Figure 5-1 above also shows, however, the number of Japanese banks and financial institutions using loan syndication began to grow rapidly at the end of the century. 2001 saw the first major increase, with 21 new banks acting as lead bookrunners for the first time. Although many of these banks acted as bookrunners in conjunction with foreign firms, several also orchestrated deals without any foreign involvement. By the end of 2003, 81 Japanese banks had acted as bookrunners for domestic Japanese corporations, roughly equaling the 87 total for foreign firms. In that same year, Japanese banks were bookrunners in a total of 1,194 loan syndications, compared to foreign bookrunners in only 39 deals.

By 2006, Japanese banks had come to dominate the market. In that year, Japanese banks acted as bookrunners on 98% of the 2,548 deals completed. Of these, foreign banks were only involved in 32 deals. Foreign banks themselves ran a total of 56 deals, meaning there were only 24 deals that year in which Japanese banks were not involved as bookrunners in some capacity. By then, the total Japanese loan syndication market had grown to a total value of 24 trillion yen.
The Paradox of Foreignness

(roughly 240 billion USD). The number of deals had in turn increased to over 2,500, as opposed 32 deals in 1998, as shown in Figure 5-3.

Notably, new Japanese entrants into loan syndication included not only major commercial banks but also smaller regional banks as well as credit co-operatives, savings institutes, trust banks and life insurers. The borrowers themselves stemmed from all corners of the Japanese industrial landscape, including financial firms, manufacturers, retailers and pharmaceuticals.

Factors Underlying Growth in Japanese Loan Syndication

The sudden growth in the loan syndication after 2000 can be attributed to three different, but inter-related, factors. First and foremost was the formation of the Japan Syndication and Loan Trading Association (JSLA). When loan syndication was originally launched by foreign financial players in the latter 1990s, the standards and practices used differed considerably amongst banks; subsequent Japanese banks entering the market also used their own home-grown documentations. As a result, there was considerable confusion among both borrowers and lenders, leading to an increase in legal costs and translation fees.

In an effort to promote common standards and develop an overall framework for the practice, a number of Japanese banks, together with local lawyers, regulators and academics, convened a working group to study the syndication industry in 2000. The result was the formation of the JSLA. Industry associations promoting loan syndication already existed in other markets, including the Loan Market Association (LMA) in London, the Loan and Syndication Trading Association (LSTA) in New York and the Asia-Pacific Loan Market Association (APLMA) in Hong Kong. The APLMA had in fact attempted to establish a branch office in Japan during the late 1990s. While the Japanese banks initially considered adopting the APLMA's standards as their own, they eventually opted for introducing Japan-specific documentation. As one senior banker involved in the process noted:

"...we discussed whether we would go for the standard of APMLA [the Asia Pacific Loan Market Association, based in Singapore] or create our own...our consensus was that Japan is a bit different country and so we cannot automatically copy the APMLA wordings and documents. So we created our own association, a Japanese association, and standardized the documentation, setting up the rules of the market..."
The goal of the Japanese-sponsored JSLA was two-fold. First it aimed to educate both potential borrowers and lenders about syndication. By producing information and memos describing syndication and its benefits, the association sought to introduce the practice to a broader public, thereby increasing the number of participants. The second aim of the JSLA was to create a stable framework for loan syndication in Japan by producing standardized documentation. On its website the JSLA hence began to publish typical contracts, as well as guidelines for their use. Although not legally binding, these contracts became widely used by almost all Japanese borrowers and lenders and led to a streamlining of syndication practices. Notably, almost no foreign banks were members of the JSLA and many of them preferred to continue using their original contracts rather than the Japanese standardized versions.

A second driver for greater syndications was the consolidation wave of major Japanese commercial banks into three so-called mega-banks. In 2002 for example, the Industrial Bank of Japan (IBJ), Fuji Bank and Dai-ichi Kangyo Bank (DKB) formed the Mizuho Financial Group. At the same time Mitsui Bank and Sumitomo Bank merged to form the Sumitomo Mitsui Banking Corporation (SMBC). Other major banks such as Tokyo Bank, Mitsubishi Bank and Sanwa bank in turn came together under the name Tokyo-Mitsubishi UFJ.

The mergers themselves were driven by a need to consolidate the banking industry and increase competitiveness. One of the direct results was that the lending portfolios of each mega-bank became enormous as they combined all of the outstanding loans from each of the forming banks. Because many of the merging banks had previously competed for the same industries and companies, the combined megabank portfolios were dangerously overweight in certain sectors. In order to balance their portfolios and future lending strategies, managers of the new mega-banks became increasingly interested in loan syndication and sought to promote the practice.

Although the megabank mergers and subsequent need for loan syndication only affected a small number of banks, a well-developed syndication market required co-operation from numerous banks, acting as investors, participants and mandated arrangers. Because of their size and market power, the megabanks were able to convince smaller financial institutions, such as regional banks, credit co-operatives and savings institutions, to accept loan syndication as a
new lending format. In this way, the merger of a few banks had a direct effect on the financing format of the overall banking population.

A final factor influencing the growth of loan syndication was the need for new investment opportunities on the part of regional banks. While the megabanks had an interest in promoting loan syndication, regional banks in particular came to see syndication as an opportunity to diversify their own holdings. While regional banks had considerable assets on their balance sheets their corporate relationships often did not extend beyond their local prefecture; as a result they not only had limited lending opportunities but also faced significant risks, since similar industries were often concentrated in the same geographic location. By participating in loan syndications together with megabanks, regional banking institutions were hence able to increase their lending and diversify their loan portfolios, while at the same time reaping extra profits from interest income.

5.2 Late Adoption by Japanese Banks: Varying Explanations

The above section indicates that foreign and domestic banks differed considerably in their adoption of loan syndication. While both foreign and domestic actors had dabbled in loan syndication prior to the mid-1990s, the subsequent explosion in loan syndication was led by foreign actors, not incumbent banks. Subsequently, however, domestic banks not only entered the market but completely came to dominate it, effectively pushing foreign banks out of the market.

The central question that arises is: why do we observe this pattern? In particular, what explains the initial leading advantage of MNEs in introducing loan syndication? The current section tackles these questions by delving deeper into both specific characteristics and traits of loan syndication, as well as the context of Japanese banking and the role of foreign firms in the local industry.

Firm-Specific Differences: Skills, Capabilities and Loan Syndication Experience

To begin with, the fact that MNEs led domestic firms in the adoption of the new lending practice is hardly surprising to international business scholars. As noted in Chapter 2, students of the MNE have long argued that foreign firms require unique competitive advantages in order to compete effectively with domestic actors (Buckley & Casson, 1976;
Dunning, 1980; Hymer, 1960/76). In particular, this has led to a stream of literature focusing on the firm-specific competences and capabilities of multinational firms and their ability to leverage these in host country settings.

Transaction-cost scholars have for example highlighted the ability of MNEs to internalize markets thus leading to greater efficiency (Hennart, 1982); others have pointed to the crucial access to global resources as a driver of competitive advantage, as well as the ability to transfer this tacit knowledge to multiple subunits (Kogut & Zander 1993). From this perspective, the early adoption by foreign firms can most easily be explained as due to firm-specific capabilities. In particular, foreign banks active in international loan syndication markets would presumably have skills, resources and capabilities that are superior to domestic actors, allowing them to introduce the new product faster and more efficiently.

This explanation however is tempered by the fact that Japanese banks were heavily involved in loan syndication on the international market during the 1980s and early 1990s. Moreover, this involvement was not limited to Japanese partners but involved syndications with both foreign governments and corporations, often in conjunction with non-Japanese banks (Seo, 2004). Japanese banks, especially the largest commercial units, thus appear to have had substantial experience and knowledge of loan syndication long before the practice made its debut on their domestic market.

A focus on firm-specific skills and capabilities also poses another interesting question: what exactly are the skills and capabilities necessary to compete successfully in loan syndication? Respondents I spoke with indicated that in contrast to other financial products such as derivatives, options and structured vehicles, loan syndication is a comparatively simple product. Loan syndication thus exhibits comparatively low technical barriers to imitation and adoption.

Respondents did however note two assets that are crucial to successful loan syndication: a good understanding of the needs of the market and an extensive network of relationships with borrowers and lenders. Given that foreign entrants often lack in-depth knowledge of the local market and have weak ties to local networks, this would suggest Japanese banks should have been the instigators of the practice, as opposed foreign firms. In a study of global loan syndication flows, Seo (2004) for example notes:
The Paradox of Foreignness

 Syndicated credits depend on lead role banks' monitoring powers and require significant information flows between banks and borrowers, making them more like relation-based financing than transaction-based financing. Due to their relational financing nature, especially between lead role banks and borrowers, syndicated credit markets are likely to create liabilities of foreignness for global financial firms outside their home/regional markets. In the finance industry, information flows through embedded social relationships are critical in creating market transactions. (Seo 2004: p. 103)

The above point would appear particularly salient in the Japanese financial market where main banks have preferential access and information about borrowers (as discussed in Chapter 4).

The above points suggest early adoption of loan syndication by foreign firms cannot be attributed to firm-specific skills, capabilities or experience. Japanese banks had the necessary experience and, more importantly, the crucial assets and networks that are necessary for loan syndication. The reason for the discrepancy in entry rates must hence be found elsewhere.

Forces for Change: Economic, Social and Political Demand for New Lending Practices

While firm-specific skills, capabilities and experience are crucial enablers of action, they do not necessarily drive action. In other words, just because an organization can do something, doesn’t necessarily mean it will. To begin with, organizations might not be aware of the existence of an alternative practice or format, even if they have the means to adopt it (c.f. Zajac & Bazerman, 1991).

Moreover, even when they are aware of alternative behaviors or actions, organizations might be perfectly content with their existing structure, routines and strategies and hence see no reason for adopting an alternative practice or format. In particular, there may be little incentive or pressure for departing from well-known and routine behaviors in favor of new and unknown actions. From this perspective, Japanese banks’ slow adoption of loan syndication might hence be explained by a lack of awareness and/or necessity (c.f. Tolbert & Zucker 1983).

A closer look at the conditions facing Japanese banks during the mid 1990s suggests however that this argument does not hold. To begin with, domestic banks were very much aware of loan syndication; as noted earlier, Japanese financial institutions were heavily involved in the global syndication market during the latter 1980s. This would
suggest that cognitive myopia was not a central factor in the late adoption.

Secondly, Japanese banks during the mid 1990s were facing considerable financial difficulty and crisis. As a result of over-borrowing, poor investment strategies and a sudden deflation of asset prices in 1989, many Japanese corporate customers became unable to repay outstanding loans and interest in the mid 1990s. This in turn led to a sudden increase in the amount of non-performing assets on the books of domestic banking and financial institutions as shown in Figure 5-4 below. As the amount of non-performing loans grew, Japanese banks became unable to finance their many clients. This in turn lowered economic growth and exasperated the situation, leading even more companies to renege on interest payments. Banks and corporate clients hence became stuck in a vicious self-reinforcing cycle leading to ever greater non-performing loans and economic problems.

Figure 5-4: Japanese Banks' Non-Performing Loans

As the crisis deepened, many observers began to blame the non-performing loan problem on the strategies and practices institutionalized in the main bank system. By continuously encouraging large-volume lending and focusing on balance sheet size as a measure of status, the bilateral lending system led to an over-extension of credits and increased the vulnerability of banks. Moreover, the deeply
embedded relationships of the main bank system discouraged banks from writing off bad loans, since this would de-facto mean abandoning both loyal customers and reducing the size of the balance sheet. The main bank system hence locked Japanese banks into a negative cycle of continuously lending to failing customers, thereby steadily increasing the size of bad loans on their balance sheets.

As the non-performing loan crisis dragged on, the main bank system came under intense scrutiny and criticism, with many pundits calling for new, alternative lending practices. As Figure 5-5 indicates, the number of domestic press articles focusing on non-performing loans and banking finance problems increased dramatically during this period.

Figure 5-5: Number of Japanese Press Articles on Non-Performing Loans

By 1998, when Citibank and other foreign banks had begun to firmly carve out loan syndication as a novel lending practice, the pressures for reforming pre-existing Japanese lending practices was acute. To begin with, several major Japanese financial institutions went bankrupt, including Yamaichi Securities, the country's 4th largest securities firm, as well as the Long Term Credit Bank, a highly venerated and respected member of the Japanese banking system.
1998 also saw the introduction of the Tokyo Big Bang, a financial reform packaged modeled on London’s deregulatory measures of the same name; the Big Bang in particular aimed to make the Tokyo market “free, fair and global” and thus do away with many of the relationship-based lending practices of old. At the same time the Ministry of Finance, long a central supporter of the main bank system, was emasculated and many of its powers were transferred to the newly formed Japanese Financial Supervisory Agency (FSA).

Finally, Japanese bank revenues and profitability were coming under intense pressure. In an effort to resolve the financial crisis, the Bank of Japan had lowered interest rates to near-zero, as shown in Figure 5-6. Because Japanese bank revenues were primarily interest-rate driven, the low interest rates pushed bank earnings deep into the red.

In summary, the increase in non-performing loans, negative sentiment towards bilateral lending, deregulation and severe income losses all combined to put tremendous pressure on Japanese banks to adopt alternative lending practices that could mitigate these problems.
Economic Benefits of Loan Syndication: Portfolio Diversification & Fee Income

It's important to note that the rise of the financial crisis does not in itself lead irrevocably to loan syndication; in responding to the crisis and pressures for change, Japanese banks could have adopted any number of different practices or solutions. What is notable however, is the extent to which the central benefits of loan syndication corresponded to many of the most urgent needs of the banks.

To begin with, one of the central advantages of loan syndication is the ability to diversify lending across multiple institutions. This not only allows customers to raise large sums, it also enables banks to continue lending to important customers, even when balance sheets are under stress; in other words, main banks can sustain their close relationships by acting as bookrunners, syndicating out large loan volumes to participants.

Diversifying lending also has advantages in portfolio management. By taking part in lending arrangements to borrowers in multiple industries, banks can spread their lending portfolio across diverse sectors; this reduces the risk of the underlying portfolio and also lowers the possibility for sudden massive non-performing loans. A functioning secondary market for loan tranches further promotes diversification by allowing banks to trade positions, thereby balancing their portfolios.

Finally, the major economic benefit of loan syndication is the high return on assets that bookrunners enjoy thanks to leverage. While bookrunners received the full fee payment for arranging the loan, they minimize the actual amount of loans on their books by syndicating out to participants. Since these fees are considerably higher than interest rates, bookrunners essentially earn much higher return than bilateral lenders, even as they hold considerably fewer loans on the balance sheet.

All of the above facets had the potential to solve some of the critical issues facing Japanese banks. Syndicated lending could enable banks to maintain relationships while using only part of the balance sheet; diversification and loan trading could enable them to sell off non-performing loans and thereby improve their own financial ratios; increased revenues from the fee business could off-set negative income effects due to lower interest rates.

In summary there was considerable pressure for adopting alternative lending practices, and a specific need for many of the advan-
tages that came with loan syndication. Despite these factors, however, domestic banks were slow to adopt the practice. We can thus rule out need-based pressures as an explanation for why banks were slow to introduce the new innovative practice.

The Willingness to Syndicate: Institutional Limits to Norm-Breaking Action

While the adoption of a novel product, strategy or behavior depends on capability and need, it is also influenced by external norms and institutional settings (c.f. Rao et al., 2003). Jonsson and Regné (2009) for example argue that imitation is driven by a three-step model of identification, ability and willingness. Their central argument is that even when organizations have identified and are able to undertake a specific action, they may be unwilling to do so if the behavior is deemed socially unacceptable and illegitimate.

In discussing firm-specific skills and the changing economic dynamics of the Japanese banking industry, the previous sections have primarily focused on ability and identification; as we have seen, both of these factors would suggest Japanese banks should have adopted loan syndication much earlier than they did. If ability and identification factors do not explain the relatively late adoption of loan syndication by banks, what role then does willingness play in the equation? In particular, to what extent did institutionalized norms and values guiding notions of appropriateness impact adoption rates among domestic banking institutions?

As discussed briefly in the preceding chapter, the Japanese main bank system was characterized by a number of specific practices, logics and strategies. These included a central focus on bank hierarchy and status, an emphasis on large volume lending and maintenance of loans on balance sheets, a reliance on interest-driven revenues, deeply embedded client relationships and a willingness to support borrowers during times of financial difficulty.

These behaviors were central to the main bank system and characterized all Japanese bank lending practices during the post-war era. Moreover, they were heavily institutionalized and reinforced through a number of different mechanisms. On the regulatory level, the Ministry of Finance (MOF) cemented the main bank system by restricting alternative corporate finance practices and heavily regulating financial innovations. The Bank of Japan similarly ensured the continuation of the main bank system by providing banks with a
steady stream of cheap credit in order to support their corporate clients even in times of distress. As one Japanese banker put it:

"...it was a postwar, kind of a public requirement for banks, to support the industry, even through difficult times. And so [the banks] adopted very close relationships with clients..."

These close relationships were in turn characterized by ties on various levels. On a structural (economic) level, relationships were composed of lending as well as significant cross-ownership of shares. These ties meant banks had incentives to keep clients afloat (or else risk losses on shareholding and lending), while client corporations in turn responded by taking large loans in order to increase revenues at banks. The structural ties were in turn reinforced by socially embedded relationships; managers at banks and corporate clients often knew each other well, had similar backgrounds and sent their children to the same schools. Bank managers were frequently seconded to client firms to aid in corporate restructuring and new business strategies. These ties were furthermore cemented when the banks and clients were members of the same larger business conglomerate, so-called *keiretsu* or *kigyou shudan*, such as Mitsubishi or Sumitomo.

The close relationships between banks and their clients, coupled with the external coercive pressure on maintaining the main bank system, led to a blurring of organizational boundaries. One Japanese bank employee with 20 years experience put it as follows:

"It was unclear what we were. Were we owners? Were we lenders? We sat in the same boat. Our futures were intertwined, it was impossible for them not to be."

Significantly, this structure was reinforced not only through external ties but also through the banks' internal education, hiring and management processes. Employees were employed straight out of university and socialized into the existing banking culture through strict training programs; these in particular emphasized the bank's crucial societal roles, as described by Rohlen (1978):

"On a number of occasions executives came to give us lectures, comparing work done for the bank to work done for society. They explained that the bank performs was a critical and necessary function for the whole national economy; the work of every employee is thus linked to peace and prosperity of all Japan. "When she was troubled and poor, the homeland was
militaristic,” we were told, “but economic success has freed her from the need for military expansion.” We were also encouraged to appreciate the number of shopkeepers in the province who were able to stay in business thanks to our loans. “Low interest rates are possible when banks are efficient and carefully managed,” the executives pointed out. The basic message was clear: because the company serves the public interest, good workers are good citizens.” (p. 132)

These socialization efforts were complemented with significant in-house training and education. Employees were rotated among different departments on a regular basis (often with two or three years in each section) in an effort to develop their all-around understanding of the organization’s business model and practices. Knowledge and expertise became firm-specific, as opposed to market-specific, reinforcing existing structures and capabilities. Moreover, the extreme rarity of job-switching meant workers remained with the same company for their entire career, further ensuring the deep socialization and diffusion of existing norms, values and behaviors.

The structures, routines and practices of the main bank system were, hence, deeply embedded and reinforced on multiple levels. As a result, many of the facets of the main bank system took on a normative value of their own and came to be taken-for-granted. Given that these same practices differed considerably from loan syndication, the notion that emerges is then that the late adoption by Japanese banks was not driven by a lack of capabilities, skills or need but rather by unwillingness to challenge pre-existing norms and behaviors. Because the main bank system was so deeply institutionalized and accepted, the practices and behaviors stipulated in loan syndication were potentially seen as too norm-deviant and illegitimate to entertain, despite the ongoing crisis. When asked why loan syndication was not introduced earlier, a Japanese banker summed it up as follows:

“....people have been wondering why, especially when we were suffering from so much bad loans, we didn’t do something sooner. But simply, the financial climate didn’t accept such a syndication solution. The banks didn’t accept it and also the clients didn’t accept it.”

An example of this lack of acceptance can be found in the experiences of Shusaku Minoda, a manager at the Industrial Bank of Japan’s London branch. In the early 1990s, Minoda wrote to Tokyo headquarters warning them that the current banking system might
collapse. His dire warning, which would come true within a few short years, was largely ignored:

"The answer was, 'Don't worry, IBJ is the most prestigious bank in Japan, the strongest. Japan is strong. And at most, the Ministry of Finance will not let the banks go bankrupt.' So literally, they were saying they don't care about the business model. Rather, there is a strong protection from MOF, that was the reason they thought they were safe."

It is important to recognize that while the main bank system was long sustained through coercive means (for example control by the Ministry of Finance and shareholder ties between banks and companies), many of these had disappeared or significantly weakened by 1998. The Ministry of Finance had lost much of its previous power and as lending began to dry up, banks had fewer economic incentives to maintain relationships. Despite this, however, loan syndication was not fully adopted by a majority of banks until after 2000. This would suggest that the deeply institutionalized norms, values and beliefs of the main bank system kept many financial institutions from fully accepting and adopting a practice seen as illegitimate.

**Loan Syndication as a Foreign Practice**

Given that the main bank system strictly enforced pre-existing bilateral lending practices, an important question that arises is why domestic banks were able and willing to use loan syndication on the international market. One explanation for this is that Japanese loan syndications during the 1980s and early 1990s were focused almost exclusively on non-domestic enterprises (Seo, 2004). Because domestic Japanese firms had grown accustomed to borrowing through the bilateral main-bank system, Japanese banks were primarily lending to non-Japanese clients in the United States, industrialized Asia and, in particular, Western Europe. As a result, direct loan syndication to Japanese firms themselves was uncommon.

This focus on foreign clients and international markets in turn came to define the very concept of loan syndication from a Japanese perspective. While the Japanese word for loan syndication is a literal transcription of the English term (lôn shinjikêshon), newspaper and magazine articles often defined the concept as kokusai kyoudou yuushi, literally meaning "international joint funding". In 1983, the Nihon
Keizai Shimbun, Japan’s leading financial daily, for example defined loan syndication in its page 3 “Today’s Word” column as:

“Joint international financing form in which American, European and Japanese banks together lend money to foreign government and public owned entities, primarily in developing economies.”

The definition appeared in the same column in 1986 with a slightly different wording but still focusing on the international aspect of the practice:

“Connotes a situation where multiple banks together raise money to offer loans to foreign governments, government entities or private companies.”

A definition appearing in 1991 was virtually identical. In a review of articles up to the mid 1990s, I found virtually no mention of loan syndication pertaining to domestic syndications. The only anomalies were short notices pertaining to foreign bank loans to smaller consumer finance companies operating on the fringe of the industry.

Loan syndication was hence acceptable by Japanese banks only if it was done outside of Japan, and in relation to foreign clients. As noted above, not only Japanese banks but also Japanese corporations were aware of the concept, yet they saw it as an illegitimate and unacceptable practice within the context of Japan’s domestic lending system. This further reinforces the notion that the structures, norms and values of the main bank system had strong isomorphic pressure on the behaviors and strategies of domestic financial institutions.

5.3 Early Adoption by Foreign Banks: Innovating on the Fringe

The late adoption of loan syndication by Japanese banks hence appears to be explained primarily by institutional factors. In particular, the norms, assumptions and practices of the main bank system rendered loan syndication illegitimate and unacceptable. As a result, banks long resisted adopting the practice.

This insight however raises an important question: why were foreign firms able to introduce this norm-deviant practice when local actors were unwilling to do so? Kostova & Zaheer (1999) have noted for example that foreign firms are often held to higher standards of normative compliance than local counterparts. Why then was the
population of foreign banks so early in adopting what amounted to an illegitimate practice?

**Foreign Banks in Japan**

While loan syndication was a new practice, foreign banks themselves have a long history in Japan. The first foreign banks were opened up in the port city of Yokohama in the late 1800s to take advantage of Japan’s modernization efforts. While most non-domestic banks withdrew during the war years, they re-entered in great numbers during the 1950s.

Despite their long presence in Japan, foreign banks were highly regulated in their activities. Up until the 1970s, for example, the Ministry of Finance excluded foreign banks from competing directly with domestic actors, effectively limiting them to foreign currency lending (an area off-limits to domestic actors). Foreign banks were also excluded from the close relationships and inter-linkages characterizing the main bank system.

In the late 1970s Japan introduced a series of deregulatory measures, effectively allowing foreign and domestic banks to compete directly. While the idea behind these measures was to increase foreign firms’ access to local markets it had the opposite effect, further restricting their opportunities; while Japanese banks were now allowed to compete in foreign-currency lending, foreign banks still faced considerable difficulty accessing local customers due to their lack of deep relationships and exclusion from the main bank system.

**A Focus on Innovation and Niche Markets**

To overcome this obstacle, the majority of foreign banks began instead to focus on niche markets, introducing innovations and practices unavailable from Japanese competitors. Foreign banks hence initially built on their position in foreign currency lending to introduce foreign currency swaps. These were subsequently expanded into general interest rate swaps, followed by options and derivatives. In the late 1980s, foreign firms also introduced securitization as well as kagonuke, a novel financing scheme unique to Japan whereby non-bank financial firms (such as leasing companies) were able to circumvent MOF guidelines through a set of complex cross-border lending transactions.

The focus on innovations continued and even increased during the 1990s as foreign banks saw new opportunities in the rapidly changing
Japanese financial market. In particular, foreign banks became leading proponents of loan trading, effectively buying non-performing loans from major domestic banks at discounted prices and then reselling these on the market for a large profit. In addition to the introduction of loan syndication, foreign firms in the late 1990s also pioneered mergers and acquisitions, as well as complex corporate finance structures including management buy outs and whole-business securitizations.

**Domestic Reactions to Foreign Innovations**

The various financial products introduced by foreign banks became known as *zaiteku*, meaning financial technology, or sometimes just FI, short for financial innovation. Although many were successful and responded to the needs of a particular client base, they were not necessarily greeted with enthusiasm by all local firms. An article in the financial daily *Nihon Keizai Shimbun* for example reported that six employees at a major Japanese financial firm spent almost a day arguing over whether one specific form of *zaiteku* introduced by a foreign bank might in fact be seen as akin to tax evasion and thus have detrimental effects on the company’s image (*Nihon Keizai Shimbun*, 1985). Perceptions towards the practice of *kagonuke* were particularly unenthusiastic: an article in the Wall Street Journal quoted one Japanese banker as saying “Kagonuke is a dirty word, suggesting trickery.” (Hye, 1986).

Japanese reactions to the purchase of non-performing loans by foreign investment banks and funds during the downturn of the 1990s were especially negative. Investment banks and buy-out firms became known as *hagetaka*, literally meaning vulture. Numerous media articles and books decried their effect on the Japanese economy. The movement even spawned a highly popular Japanese TV show, called *Hagetaka*, about the trials and tribulations of a Japanese man working for one of the foreign vulture funds. Politicians and op-ed pieces in leading newspapers bitterly complained about the influence of foreign banks and their practices.

At the same time, however, many local Japanese corporations welcomed the foreign innovations. Companies like Kawasaki Steel benefitted greatly from securitization deals introduced by Citi and in many cases the foreign banks served as initiators of trends that over time came to be adopted by a majority of local banks.
Early Adoption of Loan Syndication by Foreign Banks: Possible Explanations

Foreign banks in Japan hence had a history of introducing novel innovations and practices that at times challenged local practices, values and behaviors; loan syndication can be seen as part of a larger pattern, as opposed to an outlier. Moreover, this focus on innovation and new product development appears to be driven by foreignness itself; as outsiders with little access to traditional customers, foreign banks were forced to rely on niche markets and novel innovations in order to compete.

The notion that MNE subsidiaries introduce new products and innovations to compensate for the disadvantages of being foreign is a core insight of international business (Hennart, 1982; Zaheer, 1995). Scholars have generally argued however that these innovations are the result of firm-specific capabilities, assets and resources, as opposed to population-level differences between domestic and foreign firms. As noted earlier, however, domestic Japanese banks had considerable experience and knowledge of loan syndication; hence, this explanation appears to be inadequate in accounting for foreign bank’s early adoption of the novel lending format.

Figure 5-7: Currency Denomination of Foreign Banks’ Loan Syndications

![Figure 5-7: Currency Denomination of Foreign Banks' Loan Syndications](source_url)
An alternative possibility might be that foreign banks were first in loan syndication because they had greater access to foreign currency and funding. This is in particular a common explanation given by Japanese banks when asked why foreign firms pioneered loan syndication: they argue that local corporations seeking foreign funds approached non-domestic banks. In fact, the vast majority of early loan syndications were denominated in yen, not foreign currency. As Figure 5-6 shows, lending in yen dominated loan syndications until the mid-2000s when Japanese banks emerged as market leaders. Preferential access to foreign currency thus appears to hold limited explanatory value for the early entry of foreign firms.

5.4 Foreignness and Loan Syndication: Insights and Questions

In chapter 2 I suggest foreignness sets the MNE subsidiary apart in the host country environment and hence potentially exposes it to expectations, norms and pressures that differ from those of host country actors (c.f. Kostova et al., 2008). Organization scholars have in turn argued that differential expectations and norms significantly impact the adoption of norm-breaking practices (Leblebici et al., 1991; Palmer & Barber, 2001). Jonsson and Regnér (2009) argue for example that adoption of a novel practice depends not only on ability but also on willingness, i.e. the extent to which an organization is in the position to depart from prevailing norms, beliefs and values.

Taken together, the question that arises is then to what extent foreignness may have impacted the different adoption patterns observed in the evolution of loan syndication. In particular, what internal and external attributes arose as a result of foreignness and how did they affect the decision to adopt syndication?

This question can moreover be extended to the subsequent evolution of loan syndication. As the preceding chapter indicates, Japanese domestic actors eventually came to dominate the legitimized loan syndication market, effectively reducing the market shares and positions of foreign firms. What role did the internal and external aspects of foreignness play in this process? To answer these questions, the following chapters focus on the process by which Citibank, IBJ and Shinsei adopted and implemented loan syndication.
Chapter 6

Citibank and Loan Syndication

While the previous chapter has focused upon the introduction and subsequent development of loan syndication from an industry perspective, the following three chapters take a closer look at the individual processes involved in introducing the new practice. In particular, the chapters seek to highlight how three different banks approached loan syndication, incorporated it into their practices and implemented it among customers. By highlighting these processes I seek to make clear both the specific characteristics of foreignness, and their impact upon the ability to take radical strategic action. In this initial chapter, I focus upon the case of Citibank: the original foreign pioneer of Japanese loan syndications.

6.1 Citibank in Japan: a Long-Term Outsider

Although Citibank closed its first domestic Japanese loan syndication transaction in the fall of 1998, the basis for the move into loan syndication had been laid long before. Citi opened its first branch office in Yokohama in 1902. Expelled during the war years, the bank was one of the first to re-enter after the war, opening branches in Tokyo, Yokohama, Nagoya, and Osaka in January 1950. In subsequent years, it expanded its total number of branches in Japan to 38, the largest of any foreign financial institution.
Chapter 6

By the mid 1980s, Citibank was one of the largest and most visible foreign banks operating in Japan, thanks to its long history and multiple branch outlets. In 1985, the bank had roughly 200 recurrent relationships with Japanese corporations, almost exclusively large blue chip companies, as well as substantial business with Japanese subsidiaries of foreign firms. These relationships, as well as the bank’s focus upon employing mostly Japanese staff and often Japanese country managers gave it a competitive advantage over many other foreign banks. Stephen Harner, a Branch Manager at Citibank Nagoya and later Vice President of Citibank Japan in the late 1980s, explained:

“We were more successful than anyone else mainly because we’d been there the longest, we had a better story to tell... Citibank started in Japan in 1902...and we always said we were in it for the long haul, 99% of our staff were Japanese, we had the most Japanese-type management structure, branch network...”

Disadvantages of Outsidership

Despite its history, relationships, and its well-recognized name, Citi faced considerable challenges in accessing the local Japanese market. Part of the reason for this was purely economic: Japanese banks could lend at far cheaper interest rates than their foreign competitors, thanks to support from the Ministry of Finance and the Bank of Japan. However, Citibank had to comply with U.S. headquarters’ strict requirements on profitability and return on assets and, as a result often could not compete on price in the local Japanese market.

However, even when Citibank was able to compete on price it also suffered from being an outsider in the Japanese banking industry. The relationships it had were not on the same level as the close ties enjoyed by Japan’s traditional main banks; even its regular customers often preferred working with traditional house banks with which they had long-standing relationships. As Harner explained:

“... we tried like hell to become a relationship bank, but it was difficult.... you were a completely different entity than a Japanese bank. The Japanese banks were group members, they had interlocking relationships, they had personal relationships, essentially director relationships. The foreigners were not part of that Japanese world.”
A Focus Upon Product Innovation

Similar to other foreign banks, Citibank responded to these barriers by differentiating itself from local competitors, offering services and products unavailable in the domestic market. Harner noted:

"[And so we had to] adapt, by [offering unique] products and services... we had to because we looked different, were seen as different. Any foreign bank in Japan, you had to be a niche player, you had to have a niche strategy. You had to focus on things Japanese banks could not do, would not do..."

Until the late 1970s, the niche occupied by Citibank and other foreign banks was naturally ordained, thanks to regulatory barriers imposed by the Ministry of Finance prohibiting domestic banks from lending foreign currencies. With deregulation, however, Citibank lost this natural niche and faced increasing difficulties in selling to customers; while foreign banks could often source U.S. dollars, Deutsche Mark or Swiss Franc at cheaper rates than their Japanese counterparts, the value of deeply embedded main bank relationships meant that many customers reverted to their main banks for these services, despite cheaper pricing by foreign banks.

In order to counter the effects of these relationships, Citibank competed not only on pricing and efficiency but also by offering unique products and services unavailable from domestic competitors; things Japanese banks "could not or would not do", as Harner noted. This effectively gave local customers interested in working with Citibank an excuse to deviate from the main bank relationship. Yoichiro Mori, who worked on loan syndication at Citibank during the 1990s, put it as follows:

"... non-Japanese banks were expected by the borrowers to show them more interesting products.... if we can give them clear reasons for not hiring Japanese banks then they're ok but otherwise they'll refuse to use us. So, go to foreign banks for sexy products."

As Table 6-1 indicates, the notion that uniqueness of product or service was as important as efficiency and price emerged several times during interviews with Citibank employees. Respondents particularly pointed out that, without a point of differentiation, foreign banks many times found it nearly impossible to break into the interlocking relationships between Japanese banks and their customers.
Table 6-1: Citibank’s Focus on Novel Product Innovations

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Position</th>
<th>Quote</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frank Cavallo</td>
<td>Co-head of Global Securitization, Citibank Japan</td>
<td>“...our goal was to encourage companies to choose something where they can use the excuse that ‘Well, my relationship bank does not offer such a product so I can do it with Citibank and not impact my existing bank relationships.’”</td>
</tr>
<tr>
<td>David Tropp</td>
<td>Former Head of Loan Syndication, Citibank Japan</td>
<td>“...if a company wants to do business with a foreign bank, of course the Japanese banks’ relationships will demand that business...the company...has to kind of gracefully say ‘We’ve got a better proposal, we want to use that, we’ll still give you lots of business, don’t worry, you’ll be fine.’”</td>
</tr>
</tbody>
</table>

Due to the strong positions of local Japanese banks, Citibank sought to differentiate itself by playing the part of innovator. Table 6-2 lists some of the numerous financial innovations pioneered by Citibank in Japan from the mid 1980s and onward. While some of these were based upon specific knowledge and skills imported from abroad, a significant number were also the result of an internal focus on developing unique products suited to the Japanese market. Hollis Hart, in charge of Citibank’s non-worldwide clients in Japan during the 1980s and later country manager of Citibank Japan, explained that the goal of the bank was to solve problems and offer solutions in a novel and different way:

“We were just not going to compete on the big motor muscle skills, that was the purview of the Japanese competition. We were going to compete on the fine motor muscle skills...we wanted to be seen, and needed to be seen by the customers as value added. We wanted to be on the short list of people when they had a problem that they didn’t know how to solve, they picked up the phone and they called us.”

Table 6-2: Selected Innovations by Citibank in Japan

<table>
<thead>
<tr>
<th>Year</th>
<th>Innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>First trade receivable backed private placement</td>
</tr>
<tr>
<td>1988</td>
<td>Established first asset backed commercial paper program</td>
</tr>
<tr>
<td>1989</td>
<td>Initiated kagonuke trade</td>
</tr>
<tr>
<td>1993</td>
<td>Originated first middle market corporate loan backed private placement</td>
</tr>
<tr>
<td>1997</td>
<td>Underwrote first multi-vehicle securitization</td>
</tr>
</tbody>
</table>
The internal organizational culture of Citibank Japan reflected this focus upon unique and value-added innovations. Hollis Hart for example explained that in order to foster a spirit of innovativeness and new thinking, management actively encouraged introducing new ideas and solutions:

"... [we] encouraged people to take chances and try ideas, to inculcate into the culture a sense of creative opportunism...so people became comfortable in raising new ideas. The Japanese staff...also understood that it was absolutely acceptable to fail. ... if you didn't try new ideas, we were never going to get anywhere, so when somebody did try a new idea and it didn't work, you had to make sure that they felt almost rewarded for trying. "

Management sought to implement this thinking through various tools, including both reward schemes for successful innovations and by encouraging employees uncomfortable with the culture to move to other areas. Through the efforts of top management and the natural development of the market itself, the focus upon innovation and introducing new products became widely accepted in Citi's Japan unit. As Harner, the former Nagoya Branch Manager, noted:

"... [introducing new ideas and products] was institutionalized at us, it was a managed process, depending on what customers wanted. You looked at the market, you looked at what was being done and tried to figure out whether this met the needs of your customers."

Institutionalized Processes of Innovation

The "managed process" that Harner describes naturally involved identifying services and products that would add value to customers. However, it also followed specific rules and procedures in order to ensure adequate returns to Citi's investment. In particular, Citibank was careful not to focus upon simply idiosyncratic or one-time offerings; the bank wanted to ensure that multiple market participants could use any services or products introduced. Hollis Hart explained:

"... we needed transactions that were applicable across multiple parties. We couldn't afford to invest in...one-offs, you just don't get the return on R&D investment... if an idea was not meant to succeed then we would move on to something else...we tried to avoid putting an immense amount of time into a single transaction that you could do with a single client only once."
Whenever the organization foresaw the opportunity to develop a novel service or product, it carefully studied the market’s needs and the extent to which it could serve these profitably. If the demands from customers exhibited low return compared to the resources necessary to develop the product, the bank would walk away from the deal - even if it were with one of their important relationship customers. If, however, it was deemed that the service or product could be expanded beyond anecdotal offerings, Citi would focus upon developing what Michiaki Ishiguro, Managing Director and Head of Corporate Finance at Citibank Japan, called “infrastructures”:

“So we keep asking questions, and when some new product comes up, we put it on the table and discuss things with the client. Then lots and lots of modifications were made to develop the right infrastructure... infrastructure wise, we needed a clear differentiation point from our competitors, and good infrastructure development has to be in place to create a real differentiator as an organizational model. And when I say infrastructure, I mean product capabilities to execute the deal, within Citibank.”

Innovation in a High-Competition Market

One of the reasons for the constantly changing product and service focus was the competitive nature of the local market. Despite the fact that many interviewees characterized Citi as acting in a niche market, they also conceded that competition from domestic banks was intense; if a novel product or service was introduced, local Japanese competitors were quick to follow into the same segment, as Ishiguro noted:

“... once a product is well developed, then without a good advantage, competition always depends on pricing. Japanese banks are very competitive so, as soon as you come up with a new product, they’re right on you. That’s why what we have to do is think about how to keep ourselves in the front running and always finding the new product.”

Rapid learning and imitation by Japanese competitors, as well as the realization that once competition intensified it primarily focused on pricing strategies, further contributed to Citibank’s need for constantly rolling out new offerings. Hollis Hart, the former country manager, noted:
The Paradox of Foreignness

"... we knew that the half-life of a new idea was relatively short given the intensity of the competition so we were consistently in the mode of innovation..."

As Table 6-3 indicates, Hart's comments were echoed in other interviews within Citibank. The resulting insight is that any advantages from innovating were short-lived and precarious; as domestic banks aggressively moved into areas that were originally pioneered by foreign firms and took advantage of their existing relationships, non-domestic banks were forced to maintain focus upon continuous innovation and product development.

Table 6-3: Citibank's Focus on Differentiation

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Position</th>
<th>Quote</th>
</tr>
</thead>
<tbody>
<tr>
<td>David Tropp</td>
<td>Former Head of Loan Syndication, Citibank Japan</td>
<td>&quot;...foreign banks have to find this little niche, you know, which kind of suited the foreign banks. I think it's a niche because of the consumer, the relationships area so deeply ingrained...a big bank like a Sumitomo Bank or an IBJ might have 3 or 4 thousand relationships, and a bank like Citi would have like 150, and that was big. The Japanese banks considered us very different.&quot;</td>
</tr>
<tr>
<td>Stephen Harner</td>
<td>Former Branch Manager, Citibank Nagoya and Vice President, Citibank Japan</td>
<td>&quot;Japanese companies also realized they needed one or two good foreign banks for the kinds of things that foreign banks were good at...we brought in interest rate swaps, we brought in foreign exchange...brought in options. I mean, every day, we were always bringing in something new&quot;</td>
</tr>
<tr>
<td>Frank Cavallo</td>
<td>Co-head of Global Securitization, Citibank Japan</td>
<td>&quot;...when we got to Japan there were different needs and different approaches to business, and we took our knowledge of being the first to do anything.&quot;</td>
</tr>
</tbody>
</table>

The Nature of Citibank's Customer Relationships

The foreign stature of Citibank and its unique products notwithstanding, customer relationships was an important aspect in launching new innovations on the Japanese market. In particular, the role of traditional main bank relationships increased in the early 2000s as Japanese banks regained their health after the financial crisis and became more aggressive in the market. Often, these traditional relationships bested the competitive prices or products offered by Citibank, as Ajay Sharma, Director of Global Loans at Citibank Japan, explained:
... it's not necessarily that the house bank comes with the most optimal solution or the best solution but I think the natural inclination is to go talk to the house bank. Banks here seem to mean a lot, with the companies, even though the company may be very strong. And so I think the old relationships obviously do matter.

For Citibank, the crucial role of relationships in the Japanese market meant the bank not only emphasized the novelty of its own products; it also built upon its own existing relationships with customers. Among the foreign banks, Citibank had the largest number of traditional corporate customers. As Frank Cavallo, co-head of Global Securitization at Citibank Japan noted, utilizing these relationships in the correct was key to the bank's success:

"...you have to have a commitment, you have to show relationships to do business. It's not just an overnight thing. We've build the confidence of investors. And while other foreign banks have tried similar things, sometimes it wasn't a real commitment, Bank of America started a securitization business in 95 and stopped in 97, it wasn't a real commitment. Citibank has the longest commitment to the market, so, I think you sort of have a lot of revolving doors, some banks will start their businesses and then stop next year and that sort of thing."

While Citibank sought to carefully build and cement its local corporate relationships, the nature of these liaisons were different from those of the traditional banking sector. As discussed in Chapter 4, Japanese bank relationships to customers were traditionally built upon large lending volumes, cross-shareholding and mutual equity investment, transfer of board members and the use of the bank's retail outlets by corporate customer employees. Citibank's relationships were characterized by none of these aspects. Mori, the former Citibank employee working in loan syndication during the 1990s, explained for example:

"...we didn't behave like Japanese banks. You know, like the number of people we bring to negotiations, getting customers to use the bank for their private retail, whatever. We didn't do that."

Table 6-4 provides an overview of the interviewees' responses in regard to relationships and the role of Citibank. As the quotes indicate, the role as outsider significantly influenced the overall character of the relationship between Citibank and its customers. Hirofumi Imaji, Head
of Global Loans Capital Markets and ultimately responsible for loan syndications at Citibank Japan, noted for example:

"The customers are ok with us not taking some of the traditional main bank roles, that's not what they're looking for from Citi. ...we do provide special services, but not based on old-fashioned relationship..."

Table 6-4: Citibank’s Relationships to Borrowers

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Position</th>
<th>Quote</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frank Cavallo</td>
<td>Co-head of Global Securitization, Citibank Japan</td>
<td>“Yes, relationships are important but one of the advantages we had coming in is we were offering something the Japanese banks couldn’t do. And even today...customers balance a little what they do with us and what they do with Japanese banks, we do something they can’t do.”</td>
</tr>
<tr>
<td>Michiaki Ishiguro</td>
<td>Managing Director, Head of Corporate Finance/Head of Securitization, Citibank Japan</td>
<td>“Citi had quite long relationships with most of the existing clients, and that helped us a lot, in terms of knocking on the door. I don’t think there were any specific problems for Citi to talk with the clients, at least based on the past relationship. Especially the non-yen loans...that was only...for the foreign banks, and so we had very close relationships with the customers. So [that] built up a basic network. Then they were ready to listen to any product base that was ready to deliver additional benefits.”</td>
</tr>
<tr>
<td>Hirofumi Imaji</td>
<td>Current head of loan syndication, Citibank Japan</td>
<td>“...the companies don’t ask us to provide cheap balance sheet. They can get cheap balance sheet from Japanese banks. We encourage them to use cheap Japanese balance sheets as long as it’s available but we try to come up with the structured solutions...those areas that we can differentiate ourselves from Japanese banks, that’s our basic strategy.”</td>
</tr>
</tbody>
</table>

6.2 Citibank and the First Loan Syndication Deals

Citibank formally launched a loan syndication team in Japan in the mid-1990s. Richard Magrann-Wells, who at the time was working in emerging capital markets in the Tokyo office, was put in charge of the new business unit. Magrann-Wells came to Citibank Japan in the 1990s, and had also spent time in Japan as a student; he, therefore, had good local market knowledge, but no prior experience in loan syndication. However, he was a lawyer by training and familiar with the complex documentation often involved in large financial
transactions. This skill came to use as Magrann-Wells and his team set about trying to establish the loan syndication business in Japan.

In addition to Magrann-Wells, the team was comprised of three Japanese employees who had been transferred from various sections within the bank. In starting the loan syndication market, the team focused their primary efforts upon developing a product suitable to local Japanese needs and specifications; while they were occasionally in contact with the New York office to get advice and help, there was no transfer of personnel or formal knowledge replication in Japan. The Japanese loan syndication practice was, thus, built more or less from scratch, following Citibank's goal of providing unique products to serve particular customer needs.

Initially, the team had difficulty gaining access to customers. While Magrann-Wells made several attempts to convince customers to try the new practice, they were continuously undercut by Japanese banks offering cheaper financing through traditional bilateral loans. In 1997, Citibank got the opportunity to do a loan syndication for Alderney, an investment company owned by the Singapore Government that was looking to purchase some real estate assets from the Japanese government. While the deal was done exclusively with foreign banks, and for a foreign company, it received substantial attention in the local Japanese press.

During the same time period, Japanese banks were coming under increasing pressure due to their non-performing loans; as a result, some large corporate customers were becoming concerned about their own liquidity. Shortly after the Alderney deal, the major Japanese electronics manufacturer NEC approached Citibank and asked them to arrange a similar loan. NEC's CFO had read about the Alderney syndication and believed a similar deal could reduce the company's reliance upon the traditional Japanese banks.

The NEC Deal: Innovating Over Regulatory Boundaries

In October of 1998, Citibank acted as lead arranged on a 70 billion yen credit facility for NEC, syndicated out to 11 foreign banks. Significantly, the loan was a commitment line (i.e. no money was lent to NEC, but Citibank and other foreign institutions promised to provide capital should NEC ever need it).

At this time, commitment lines were technically illegal in Japan due to the country's usury laws; while Citibank had spoken to the
Ministry of Finance before the actual transaction and had also received what Magrann-Wells called "legal opinions", the bank had not officially asked for permission to extend the loans to NEC. Therefore, it risked severe penalties, should the Ministry of Finance choose to strictly interpret the law.

In fact, the MOF did not contest the transaction and the NEC deal went on to become headline news in Japan. Citibank soon began receiving calls from other Japanese corporations seeking similar syndications of their own. As a result, the bank saw a steady stream of transactions during the following year. As Magrann-Wells noted:

"....The NEC deal really kind of changed everything. ...once NEC did it, a bunch of companies came and started knocking on our door."

The NEC transaction was hailed as the first of its kind in the Japanese press, both in terms of loan syndication and foreign banks supplying funding. This is despite the fact that not only Citibank but a number of other foreign banks, had previously extended syndicated loans to Japanese corporations on the domestic market; Citibank arranged a loan for Japan Airlines in 1992, but this was officially termed a Japan Leveraged Lease, even though the actual process was very similar to loan syndication. The Japanese consumer finance company Takefuji used loan syndication to source loans from a number of foreign banks throughout the 1990s - including The Development Bank of Singapore, Bangkok Bank of Commerce, Banca Central Hispano and Korean Merchant Banking Corporation - yet these were ignored or discounted by both the Japanese press and market watchers.

While these deals had been done idiosyncratically, when demand arose or in relation to a specific source of financing, the institutional changes and financial distress facing the Japanese banking community in the latter 1990s provided opportunities for creating loan syndication infrastructures at both Citibank and other foreign banks. Moreover, the poor state of the Japanese banks meant that foreign banks could expand to compete in similar product segments, including straight loans. As Mori explained:

"...[the domestic Japanese corporations] now had the excuse to not to tap their house banks. You know, 'You guys are weak, I can't rely on you, why should I go to you?"
Chapter 6

Motivation and Rationale for Introducing Loan Syndication

The impetus for launching loan syndication in Japan was very much in line with Citi's previous innovations: to offer unique services and provide creative solutions for customers. In fact, the loan syndication business was started in conjunction with, and as a support function for, existing products and services, as Magrann-Wells explained:

"...the head of corporate finance, Robert Manning, suggested we would start a loan desk ... he was trying to expand his corporate finance team and I think he saw it as an arm to help his other finance teams trade securitization... the thinking was our teams would work together and, you know, we had meetings every week about how we could help them..."

Developing a pure loan syndication product, focusing only upon lending without securitization or other byproducts, to some extent evolved by chance, simply because the new function now officially existed and needed to secure transactions in its own right. However, as Magrann-Wells noted, the effort almost failed:

"...it was a miserable first six months...even though we were offering great deals and we were trying to get our first deals in, it was impossible to steal the customers away from the Japanese banks... we thought we were dead; we thought we might as well close shop... if the timing hadn’t worked, if the Alderney deal and the selling off of the real estate assets by the Japanese government hadn’t taken place, I have no doubt they’d have closed down our team."

The impetus for not only formalizing the loan syndication team, but also for maintaining it over the longer term was, in particular, its potential for increasing the bank’s revenues. The combination of increased revenues, as well as supporting the internal product infrastructures of the bank, was the primary value of the loan syndication team. Frank Cavallo, a Managing Director at Citibank, noted:

"It's an alternative revenue stream and it helps; it helps us to use our expertise and use our balance sheet to commit to big deals. The value of the syndication market is for us to underwrite and maybe make additional bids and provide our balance sheet to make incremental money by underwriting that deal."
6.3 Characteristics of Loan Syndication at Citibank

Revenue potential was hence a key factor in establishing loan syndication as a separate product group. From the very beginning, Citibank focused exclusively upon being lead arranger, the position that earns the highest fees and also contributes the most to the firm's international standing and market position. Ajay Sharma, a director working in the Global Loans group explained:

"...all the data we look at in terms of where our league table position is, is based on book runners. We normally don't do anything else than be book runners...occasionally we will participate in another bank's transaction, but it's not something that we do, that is not our job."

The focus upon bookrunning and being lead arranger was further cemented through the internal organizational incentive system, as Yoichiro Mori explained:

"...our bonuses are based upon how many deals we participate in and how much fees we earn. We do, of course, look at interest earnings, interesting revenues as well, but that's kind of a reference point...that's not our central focus point."

Internal Guidelines and Regulations: Hurdle Rates and Maximum Lending

In conducting loan syndication deals, Citi maintained a number of strict rules and guidelines. To begin with, the bank followed a so-called hurdle rate (i.e. the minimum level of interest that any given transactions must clear in order to be approved by the internal risk management division. David Tropp, the head of loan syndication at Citibank Japan after Richard Magrann-Wells, explained:

"...the hurdle rate is usually set by the portfolio management group, and is related to the credit risk management function. They calculate, based on their own shadow rating of credit, the likelihood of default or loss, and based on the return of equity target for the shareholders, what return should we get on the loan. It's the overall return on that credit, including less credit intensive services you provide for that relationship, up to a certain standard."

The hurdle rate served as the minimum price at which the bank would agree to participate. Below that level, Citibank usually walked away from the deal, although in some cases below-standard return rates on
transactions were allowed, if the overall potential for business developing from the relationship passed the hurdle rate. If a relationship to a borrower failed to respond to the required hurdle rate, over a period of time, that relationship was often dropped. Tropp noted:

“If you talk to Citi in the U.S., they’ll justify a lower lending rate based on the cross-selling of the other products that go on as a result of the relationships. And so we did that here too, absolutely. If you can demonstrate that the overall borrowing relationship is above that hurdle rate, that’s typically what would justify it. And a lot of the banks also have this system where they whittle out low-return relationship.”

In addition to the hurdle rate, Citibank also had a strict rule on the maximum amount of loans the bank could hold on its own books. The rule of thumb was 10%, although this varied to some degree. However, the bank would also seek to avoid using its balance sheet as much as possible and often tried to syndicate out the majority of its lending to external investors, as Ajay Sharma explained:

“Banks like us tend to have a very strict process, so that when we start off a deal, say 100 billion, we will get approval on the basis that 10% will be held by the bank, the balance 90 has to be sold out within 90 days. If you don’t sell it down, then you have a very rigid process of selling this paper out, marking it down to what the market will buy it at. And that’s the way the syndicated loan business works anywhere in the world.”

The Citibank Loan Syndication Process

The actual process of conducting loan syndication and the dispersion of the loan follows a formalized process. When Citibank agrees to handle a loan for a customer, it will first issue a commitment letter to a client, specifying the underwriting fee, which is calculated based upon market pricing and referenced in terms of the number of basis points above the Tokyo Interbank Overnight lending Rate (TIBOR), for example: Tibor + 25 or Tibor + 50.

Next, the bank will seek to share the loan among a few other banks, known as mandated lead arrangers. Each of these will be paid the underwriting fee for their share of the loans that they are able to distribute. For example: consider there are three banks (A,B, and C) and the total loan amount is 100 billion yen, then each bank may be responsible for 25 billion yen, and receive Tibor + 25 basis points in fees for underwriting this amount. The remaining amount is the
The Paradox of Foreignness

responsibility of Citibank. Citibank will also keep the difference between the original fee and the fees promised to the mandated lead arrangers (in this case 25). This phase is called sub-underwriting.

The third and final phase is known as general syndication. At this point, Citibank and the mandated lead arrangers invite third-party investors to participate at various levels; the fees these banks receive depends upon how much they are willing to lend. Banks that take 10 billion yen might be given 15 basis points above TIBOR, between five and 10 billion 10 basis points; and below 5 billion, receive 5 basis points.

The total amount that the participants are willing to take is deducted from the original loan amount and the remainder is shared among the mandated lead arrangers. In the example in Figure 1, 65 billion yen was dispersed among the participants, leaving 35 billion to be shared by Citibank and the mandated lead arrangers; this amounts to 7.5 billion yen each. As Sharma noted:

"The economics of this ... the way this works is very simple. For Bank A, this is very very rich economically because you made 25 basis points into 100, you made 15 basis points into 25, you made this up-front fee. So the total money you make is 60 basis points, on whatever they held, say 7.5 billion. So if you calculate this return on a 1 year loan, on 7.5 billion, it's huge, the return you made."

6.4 Adopting and Implementing a Norm-Deviant Practice

Loan syndication at Citibank can be characterized both in terms of its process and the underlying product. The process itself was driven by a focus upon profitability and bookrunner positions; it was also guided and controlled by strict adherence to financial metrics, such as internal hurdle rates and maximum lending on the books. The product itself was, moreover, characterized by significant syndication to third parties - including both foreign and Japanese banks. Citibank itself held little of the loan on its balance sheet (rarely above 10% and usually much lower than this) and also included provisions for loan trading in the underlying contract. These characteristics are notable in that they defied many of the pre-existing norms and practices of the main bank system. In this section, I discuss how these norm-deviant practices were implemented by the bank - both internally and externally.
Internal Implementation of Loan Syndication

Due to the fact that the loan syndication function had previously existed within the Citibank structure, its formalization posed few internal problems. In particular, its creation was supported both by local constituents in Japan, such as Frank Cavallo, the Co-Head of Global Securitization at Citibank Japan and Richard Manning, a senior manager on the Corporate Finance Desk, as well as by headquarters in New York, which was interested in expanding its presence in Japan.

The actual development of the processes and practices of the loan syndication were initially left to Magrann-Wells and his ability to adapt the process to the idiosyncrasies of the domestic Japanese market. As a result, the internal organizational structure and processes of the Citibank loan syndication team, and those in the U.S. home market, differed considerably. The typical division in New York could number anywhere between 70 and 100 people, divided up among dedicated teams focusing upon specific tasks such as origination, sales, syndication, and so on. The nascent Japanese organization, however, was much smaller, as David Tropp, Magrann-Wells’ successor, explained:

"... our team in Tokyo, at the smallest it was 2 and at the largest it was 5, and we did all those functions. We couldn't be organized the same way and so... you get to see everything, you get to do anything, and it's a good education in that way."

Since loan syndication is a product group, it worked closely with front-end relationship managers (RMs) whose job it is to offer a wider number of solutions to customers. Many of these RMs had long relationships with individual customers and had previously offered bilateral loans to clients, similar to those of Japanese banks. As the interviewee responses presented in Table 6-6 indicate, RMs were generally positive about the new practice, despite the fact that loan syndication differed considerably from the bilateral practice, particularly in its focus upon fees and the dispersion of loans among multiple banks. Magrann-Wells noted for example:

"... there were some mixed feelings... it was strange to them because they didn’t really understand what it would mean for their relationship, and some said 'What, are we bringing in other banks to deal with the clients now? Introducing them to other banks...?' But they made fees, in addition to the..."
normal interest or what not, so they loved that, so that wasn't a problem for them at all."

Table 6-5: Citibank Relationship Managers' Attitudes to Loan Syndication

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Position</th>
<th>Quote</th>
</tr>
</thead>
<tbody>
<tr>
<td>David Tropp</td>
<td>Former head of loan syndication, Citibank Japan</td>
<td>&quot;...this is a company that had syndicated loans for more than 20 years and so the idea to do syndicated loans was not a problem. The idea that we might sell down more than the RM might want us to might be a source of tension, but generally speaking the risk management people would always make sure they were on-side.&quot;</td>
</tr>
<tr>
<td>Hirofumi Imaji</td>
<td>Direct, Head of Global Loans Capital Markets, Citibank Japan</td>
<td>&quot;I don't think it was a challenge. In the financial business, information is really key. Other than that, we don't really manufacture anything, it's a people business, people's expertise and talent, but also information. So once you learn good information that is applicable to this market, you just have to do it, you just have to apply.&quot;</td>
</tr>
</tbody>
</table>

In the case of loan syndication, Citibank operations around the world are structured nearly identically and consist of relationship managers on the investment banking side who market the product to both borrowers and lenders, as well as originators on the actual loan syndication desk who essentially build the product by calculating interest rates, dealing with documentation, etc. Ajay Sharma of Citibank Japan's Global Loans group explained:

"... the way we are globally organized, and are organized here too, obviously we have the customer front end that originates transactions and works with us, and we have a product group... So, that's a typical construct we have globally. Our typical construct is identical to how we operate all over the world."

Over time, as the loan syndication business developed and the domestic market grew, it took on many of the forms and structures common to Citibank's global matrix organization, reporting both along product lines and managerial or geographic segments.

**External Implementation Among Investors and Participants**

Implementing and adopting loan syndication as a practice at the bank required not only internal changes and the formation of an official product desk; it also necessitated getting external investors and
lenders to accept the new practice. When products such as loan syndication and securitization were first introduced into the United States, Citibank actively sought out these customer groups in an effort to teach them about the new practice. Cavallo, the co-head of Global Securitization at Citibank Japan, was involved with this process and recalled:

"... it was [an] education process of working with companies to communicate the benefits of ... doing it and the value of diversifying liquidity sources, which is the key. ... getting the first company to do something is a challenge, understand why they should be the first, and some companies like to be first and some like to be second."

The process of educating borrowers and lenders in Japan evolved in a very similar fashion. As noted by Michiaki Ishiguro, the head of Corporate Finance, Citibank in particular emphasized the financial logic and economic benefits of loan syndication in order to convince customers to adopt the practice:

"... the key is how to explain logically the benefits... half way through the 1990s, there was still an information gap and an information divide, clearly, that's why the loan syndication wasn't really accepted at first. the key is...how to differentiate ourselves from just normal lending. And that's kind of been the history of all our communications...."

Hirofumi Imaji, the current Head of Global Loans Capital Markets at Citibank in Japan, pushed a similar point in emphasizing that adoption would take place once a practice "made sense" to customers:

"It takes an effort to explain to the market to the investors and borrowers here. Externally it takes efforts, but they will be adopted only when they make sense."

Richard Magrann-Wells' primary job in starting up the loan syndication desk was, hence, to try and logically explain and develop the market, to bridge the information gap in Ishiguro's terms. Since there was no market structure, he and his team spent considerable time and energy contacting various banks that were willing to try and identify who would be interested in taking part in the deals:

"... half the battle was meeting the foreign banks and getting to know the people. We had no idea which banks would be interested, how to approach it
and who to call because there wasn't a syndication desk at any banks. So it was really going bank to bank and talking to the branch manager or the assistant branch manager and figuring out who to work with and how."

While Citibank did talk to some Japanese banks, the majority of their contacts were with other foreign banks. This was partially due to the Japanese corporations' initial focus on sourcing loans from foreign institutions, and also because foreign banks were often more willing to join the syndications than Japanese banks, many of who were initially skeptical. David Tropp, head of loan syndication at Citibank Japan in the late 1990s, noted:

"... we had a lot of issuers who wanted to talk to us every six months or every year, and they'd flirt with us for three or four years but never do anything, and we had some who just never wanted to talk about it..."

There were also some instances when the involvement of a foreign bank itself led to less involvement from certain Japanese banks. Ajay Sharma noted for example:

"Japanese may not come in to a Citibank deal because it was their customer and they didn't figure out there was a transaction there, and so they do have those quirks when you deal with them."

**Overcoming Barriers to Adoption**

Loan syndication was, however, not only a new product; in comparison with the pre-existing main bank system, it was also a norm-deviant financial service. This norm deviance was heightened as Citibank introduced a product that was characterized by large external syndications, fees, and loan trading. A question that remains is how the bank was able to overcome these barriers.

Significantly, the majority of the respondents at the bank noted that there were, in fact, very few barriers to adopting the practice. Ajay Sharma noted for example:

"I think we are pretty clear that we will not keep things on our books. ... we go to the client and say 'this is what we're going to do, we're going to sell this down to as low as possible', and frankly they couldn't care, they are fine."

In some cases, borrowers would point out that the practice ran counter to prevailing norms and practices; however, this was of little concern to
Chapter 6

Citi and, indeed, had little impact upon its activities. Richard Magrann Wells noted for example:

“There were times if we got too many banks and we weren’t holding enough they would say ‘Shouldn’t you be holding more?’ but this was never an issue for us…”

Significantly, Citibank’s norm deviance related not only to the product characteristics themselves, it also defied existing norms in terms of lending praxis. While Japanese banks were expected to lend to client corporations at virtually any cost, Citibank often declined transactions or customers that did not meet its internal demands on financial ratios. Magrann-Wells noted further:

“… there were some customers that we could not underwrite; we just couldn’t take the credit. Some we’d do on a best effort basis, and even then we had to be careful. And we got a lot of phone calls from rocky companies and some we actually had to back away from and say no, and give different reasons. But that was actually something we could do, back away… much harder for the Japanese banks.”

In particular, respondents suggested that Citibank’s ability to diverge from existing practices and norms without facing significant repercussions was due to its status outside the Japanese banking industry. Yoichiro Mori, who worked on loan syndication at Citibank in the 1990s and early 2000s, noted that adopting strategies and practices that differed from Japanese banks was generally not a problem for Citibank:

“Most of the cases we’ve been ok [about not acting like a Japanese bank] because... the expectation level is very different from the beginning. One company said “We totally segregate our approach to you guys, against the Japanese banks.” They deal differently with the Japanese and non-Japanese banks. And so there’s more of an understanding that you can do things that the Japanese banks can’t. [Client] expectations on the Japanese banks is very low, ‘You guys, shut up, just give us funding.’”

From this perspective, Citibank’s ability to introduce the norm-deviant loan syndication not only benefitted the bank; it also had potential advantages for clients. David Tropp, who headed loan syndication at Citibank in the late 1990s, explained:
The Paradox of Foreignness

"... if you put yourself in the position of a company treasurer who has to go and arrange financing and deal with all his lenders, it's a relatively easy call to make it Citi, because we're kind of outside of the system.... we could be a common carrier in ways that Japanese banks couldn't, and we could solve political problems sometimes in a way that Japanese banks couldn't. If a customer asked us to do something, we'd be outside the system, but still respectful and viable, and so that would be a way to diffuse that particular political stress."

Significantly, the outsider and foreign position also prevented the bank from facing backlashes from local competitors. As noted earlier, Japanese banks maintained strict hierarchies among customers. In loan syndication, titles such as bookrunner, agent, lead agent, arranger, and so on are equally important as they are used for marketing in subsequent deals. When several Japanese banks that all had relationships with a borrower joined a deal, balancing the titles to reflect the banks' traditional relationships and status vis-à-vis the customer created certain tensions. In these cases, Citibank would often become the bookrunner, with all other banks maintaining the same status.

The reason Citibank and other foreign banks could maintain titles above the domestic banks, apart from the fact that they often arranged the deals, was that foreign institutions were not a part of the traditional hierarchical structure of relationships that banks had with companies; hence, it was largely acceptable for them to hold higher titles. David Tropp noted:

"... what happens between Japanese institutes is one world, and what happens with foreign institutes is another world.... They don't consider foreign banks to be competition, it's a different universe, a parallel universe of sorts. If you think of the domestic banks, if a domestic bank would try to upset the apple cart that would cause a major disruption."

6.5 Evolution, Imitation and Competition by Domestic Banks

Despite posing a significant challenge to local norms and ingrained practices, Citibank's initial introduction of loan syndication was relatively easy. Although the bank faced some initial difficulties convincing investors and borrowers to adopt the new practice, these were overcome once the benefits of loan syndication were properly
explained. The bank also benefitted from an outsider position, allowing it to step into roles unavailable to local domestic banks.

As noted earlier, however, Japanese banks were quick to imitate and follow foreign-introduced practices. In the previous chapter, we saw that by 2004, Japanese banks had largely over taken the loan syndication market. Hence, a key question that remains is how Citibank was affected by the imitation and competition of domestic banks, and how this shaped the evolution of its loan syndication practice.

Perspectives Upon Domestic Banks: Differences in Mindset and Approach

As noted earlier, Citibank was well aware that Japanese banks were quick to imitate and follow its innovative lead. At the same time, however, the bank did not necessarily consider the local banks as direct competitors, despite their penchant for imitation. Frank Cavallo for example noted:

"Japanese banks clearly follow what the foreign banks are doing... [but] they've taken a different approach. And this is not a negative comment but they don't have the corporate finance skills of Citigroup or other foreign banks here. They do, they're very good but...I don't say they don't have the skills but, they have a different approach."

One example of the different approach, according to respondents at Citibank, was the domestic banks’ view on loans. As noted earlier, Citibank maintained a strict rule of syndicating out loans to external investors and limiting the amount it kept on its books. Japanese banks, on the other hand, were seen as maintaining loans on their books to a greater degree. Cavallo noted:

"It's...a mindset. ... I don't think anyone lacks skills, some may be better than others but I think everyone has the skills... everyone has the same common understanding of the market, foreign bank and Japanese banks, we all know what loan syndication is... It's just that the approach is different."

David Larson, a former risk manager at Citibank Japan, further suggested that differences between Japanese and foreign banks were due to the remaining impact of the main bank system in Japan. He noted for example:
The Paradox of Foreignness

"...[the Japanese banks] were [including clauses to allow loans to be sold] with their overseas borrowers, not their domestic counterparts because going to certain clients and saying 'I want this structured for sale', some clients really resist that. They just don't like the idea, they really want to know who their lenders are. Some will say 'Well, as long as you sell to another bank, that's ok, but I don't want you to sell to a hedge fund'."

As Table 6-6 indicates, the notion that past practices had a direct impact upon the strategies and mentalities of domestic firms emerged from several respondents. Respondents in particular viewed Japanese bank strategies as predominantly based upon relationships and the prevailing norms of traditional Japanese banking, as opposed to the "scientific techniques" employed by Citibank and other foreign banks.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Position</th>
<th>Quote</th>
</tr>
</thead>
</table>
| Ajay Sharma         | Head of Global Syndication, Citibank Japan       | "[Japanese banks] are happy setting half the deal on their books and slowly dripping it out. They don't have the discipline we have...we won't sit on a position for long, we make sure these are taken off our books, the longer it takes the more difficult it is to sell these positions down."
|                     |                                                  |                                                                                                                                 |
| Frank Cavallo       | Co-head of Global Securitization, Citibank Japan | "...the Japanese banks...would be different because either they will not price the transaction properly or underwrite a larger proportion than they should."
| Hirofumi Imaji      | Director, Head of Global Loans Capital Markets,  | "Japanese banks don't really benchmark the return hurdle, it's very rough management. It's more scientifically or strictly managed here."
|                     | Citibank Japan                                   |                                                                                                                                 |
| David Tropp         | Former head of loan syndication, Citibank Japan  | "...in [Japan] the amount of money coming from different banks was always a big political thing ... you have vestiges of that, facilities where the proportions look the same as bilateral lending. The lead always has the most...the proportions often reflect the original relationships." |
| David Tropp         | Former head of loan syndication, Citibank Japan  | "...the house bank relationship owner, anything that impinges on or questions that relationship or confuses him, he dislikes. The whole idea of loan syndication becoming a business was really disruptive to the RMs and their work, that was the source of the problems." |
| David Larson        | Former relationship manager, Citibank Japan      | "...There's a lot more of a linkage there where people are hooked together...if your marriage partner says "I'm married to you, but every Thursday night I want to come home at midnight." You've got to worry, is the husband bowling, or is he out doing something else? Syndication creates a lot of trepidation as to what it really means." |
Citibank Experiences versus Japanese Banks

Interestingly, Citibank had faced similar difficulties when initially introducing loan syndication in the United States. David Larson, who worked in Citibank’s California offices during the early 1990s, recalled the attitudes of U.S. customers to the idea of loan syndication when the concept was first introduced in the bank’s home market:

“... at Citibank back in the 1990s, relationship managers had to ask the borrowers [to allow for] loans structured for sale, which meant that Citi had the right to sell this [loan] on to somebody else. And the feeling among certain clients was ‘This means you don’t like me’ and... ‘Are you really going to be there for me’ .... certain clients really resisted it. ... it was a huge change for people.”

In contrast to both its own experience in the United States and that of the Japanese banks, Citibank felt none of the pressures to maintain Japanese loans on their books, despite having long relationships with local corporate customers. Frank Cavallo, the co-head of Global Securitization at Citibank Japan, noted:

“I think maybe sometimes as a foreign bank you don’t hesitate to try to propose something or do something... companies will not press us to not get paid, where as they’ll say to the Japanese bank ‘We’re not going to pay you anymore, take equity instead.’”

Cavallo attributed this difference between foreign and Japanese banks to the latter’s historical customer relationships, and also to the fact that it’s the Japanese banks’ home market:

“I think the Japanese banks, they will get into situations maybe they shouldn’t because of relationships. They generally will not force a company to restructure when a company should be restructured. But... I mean we all do that...I'm sure we may do the same things in the U.S. with some of our relationships, [clients] where we should be doing something different.”

David Tropp provided a concrete example of how the nature of the relationships enjoyed by Citibank were different from those of their Japanese competitors. Lenders may, for example, cut off lending to customers when the overall return from the relationship falls below the hurdle rate; Tropp suggested that this was unlikely to happen in a Japanese bank:
The Paradox of Foreignness

"In reality, whittling out low return relationships doesn’t happen here so much, because of the main bank system. By definition [Citibank] has of course, because we have fewer relationships. I mean, we’re not like Gulliver tied down by lots of small pieces of rope, but there’s an element of that to Japanese banks.”

While Citibank strove to increase its relationships and foothold in Japan, it notably also had an active strategy to avoid relationships that might tie it down, as David Larson explained:

“We used to talk about ‘share of wallet’… you wanted to have a reasonably good share of wallet but you didn’t want to have too much because then you were too important to [the client] and if there were problems you would have to lend them more money.”

He went on to suggest:

“I think the lead banks here in Japan, the reality is that they can do some things outside of Japan because they are not the lead bank and no one is expecting anything out of them other than that they’re making economic decisions. …here, it’s, really, really difficult to do. Because they have these expectations, everyone’s looking at them.”

Citibank and the JSLA

A second challenge in getting overall market approval, and furthering the expansion of the loan syndication market was the establishment of standardized documentation. In particular, the loan contracts existing in Japan at the time of Citibank’s entry were all devoted to bilateral lending practices; thus, they differed considerably from loan syndication documentation, particularly in terms of specifying common fees and interest rates for participants, loan trading, etc. David Tropp for example noted:

“… the bilateral lines used for domestic lending, they were usually pretty simple documents, they didn’t have some of the guts that a modern loan syndication document would have, but there was not particular standardization in that.”

Since the lack of standardized documentation, Citibank originally used formats imported from the New York office and then adjusted these to fit local Japanese regulations. In most cases, these were done in English. The primary reason for this was that most of the banks
initially involved in syndication were foreign and had limited resources in place that could be devoted to translating documents into Japanese. Because of the lack of standardization, borrowers had little choice, but to use the English-language contracts imported from abroad.

In an effort to remedy this situation and also develop a working market in Japan, Citibank sought to set up an industry association devoted specifically to loan syndications and loan trading. Similar associations already existed in other financial capitals, including New York, London, and notably in Hong Kong where the Asia-Pacific Loan Market Association (APLMA) was highly active in promoting the region's burgeoning loan syndication market.

With the help of Tokyo Mitsubishi Bank, the APLMA set up a representative office in Tokyo in the late 1990s, with Citibank and other foreign banks joining the organization as charter members. David Tropp, Magrann-Well's successor at Citibank, was appointed as director of the representative office in a rotating scheme that envisioned foreign and Japanese banks taking turns heading the organization. The goal of the APLMA was to promote loan syndication and develop the market in Japan.

Shortly after Tropp was appointed director of the office, however, a group of Japanese banks joined together to create its own loan market association, known as the Japan Syndicated and Loan Trading Association (JSLA). According to Tropp, it was unclear whether this was done as an attempt to exclude the foreign banks or simply because the Japanese banks felt they needed to develop an industry association on their own terms.

While the JSLA subsequently moved towards standardizing documents and translating them into Japanese, this process had little impact upon Citibank. Instead, the bank continued to focus upon developing documentation in-house, through the help of its own lawyers. Yoichiro Mori for example noted:

"... the [JSLA] is trying to standardize the kind of documents, term sheet, but we don't care. There is the Loan Markets Association in London, and the Asia-Pacific version, developed in Hong Kong, we typically start with those templates."

The JSLA and borrowers, in turn, put little pressure upon Citibank to adopt the new standardized Japan-specific documentation. When it suited the bank, it would use the local standards, but just as often it
used its own international standard, developed together with its lawyers and based upon international practices. As the JSLA developed over time, however, Citibank sought to use it as a tool for promoting various practices and regulations that it believed could support the market. Hirofumi Imaji, the Head of Global Loans Capital Markets, explained for example:

"... there are more and more activities that the JSLA can do so we may be involved more and more. And so we will probably go through the JSLA to convince the government to use new standards. So from the bank's perspective, there are concepts that the U.S. market has come up with and that we should adopt if it's helpful for everybody."

**Evolving Strategies and Market Share in the Syndicated Loan Market**

While Citibank and other foreign banks initially introduced loan syndication and dominated the market, subsequent entry by Japanese commercial banks and market expansion increased competition. Moreover, as the role of the major Japanese commercial banks increased in the domestic loan syndication market, local customers found it harder to choose the foreign banks over their traditional main-bank relationships. Commenting upon the current state of the market in 2007, Yoichiro Mori, who worked in loan syndication at Citibank during the 1990s, noted for example:

"... it's not an efficient market, it has a strong flavor of how the borrowers borrowed from the banks in a bilateral way, in the main bank system. It's difficult for borrowers to pick other arrangers than their house banks, for syndicate financing, it's a big big issue if they do that."

As noted, in the late 1990s, customers were actively moving away from their traditional banking institutions due to the uncertain financial positions of local banks and the changes in the operating environment. By 2002, however, the development of the market and the resurgence of the domestic banks meant some customers returned to their traditional banks. Mori noted further:

"In the last few years, foreign banks have lost market share. In pure vanilla, corporate lending business, Japanese banks are dominating. I think a lot of borrowers are trying to diversify their funding sources and expand their relationships...but unless they can find a good reason for doing so, it's very rare for non-Japanese banks to be picked as bookrunners."
To counter this competition, especially in the simpler, “plain vanilla” lending business, Citibank’s loan syndications became increasingly focused upon complex financial products - including leveraged finance and management buy-outs. Moreover, the bank also emphasized its size and international connections as a way of wooing customers. Sharma thus explained:

“The Japanese banks are very good at doing plain vanilla so we don’t try and compete with head on them there. There is an increasing amount of activity happening in the leveraged finance market and in private equity; that’s something that we feel at Citibank is going to drive a lot of activity.”

6.6 Chapter Summary: Citibank and Loan Syndication

As this chapter indicates, Citibank was no newcomer to Japan, having maintained a local presence more or less continuously for almost 100 years. Despite this longevity, the bank viewed itself as operating in a “completely different world” than local Japanese competitors. Specifically, Citibank eschewed the traditional relationships espoused by Japanese banks in favor of an innovator role, constantly introducing novel innovations and products on the local market.

While some of these innovations were direct transfers from other markets, many were also developed locally. In this sense, loan syndication can be seen as a hybrid: although the product itself already existed in many of the bank’s other global markets, the Japanese version was set up with little help from headquarters and by a man who had no direct prior knowledge of loan syndication.

Despite being set up locally with domestic customers’ needs in mind, Citibank’s loan syndication offering deviated significantly from the pre-existing norms and practices of the main bank system. In particular, Citibank maintained a strict focus upon economic fundamentals, emphasizing fees, reduced lending on balance sheets, and loan trading. In spite of these norm-deviant characteristics, customers had few qualms about adopting the new practice; indeed, they actively expected “sexy products” from Citibank and other foreign financial institutions. Similarly, relationship managers and other internal staff members also accepted the novel practice with little opposition. Citibank thus face few barriers to introduction; as a result
it was not forced to adopt any major implementation or legitimization strategies, either internally or externally.

Citibank's introduction of loan syndication, therefore, appears to have taken place with few direct obstacles, despite its norm deviant character. Moreover, the bank came to dominate the early loan syndication market. Over time, however, competition from domestic actors increased. With the formation of the JSLA and increasing entry by Japanese banks, Citibank's initial market share began to erode as customers shifted back to their house banks. Rather than compete head on with these Japanese banks by adapting to local prices and documentation formats, Citibank began shifted out of standard loan syndication, focusing instead upon more sophisticated product versions and newly emerging market segments.
Chapter 7

IBJ/Mizuho and Loan Syndication

To explore how and why foreignness impacts the ability of MNE subsidiaries to take radical norm-breaking action in host country institutional settings, the previous chapter sought to investigate how Citibank introduced the concept of loan syndication to the Japanese financial markets. As argued in Chapter 2, however, foreignness is a relative term – i.e. an organization is considered foreign by comparison to locally oriented, domestic institutions. Understanding the extent to which foreignness plays a role in enabling norm-breaking thus necessitates contrasting the Citibank’s experience with that of a local Japanese bank. As a result, this chapter investigates the process by which loan syndication was introduced by the Industrial Bank of Japan and its predecessor, Mizuho Corporate Bank.

7.1 The Industrial Bank of Japan: Brief Overview and History

As one of Japan’s three major financial institutions dedicated to long-term lending, the Industrial Bank of Japan (IBJ) was a crucial actor in Japanese finance during the post-war era. Founded in 1950, the IBJ was not affiliated with any of the large industry groupings, such as Sumitomo or Mitsui. This allowed it to work closely with some of the country’s biggest and most prestigious firms, across industry groupings, supplying long-term capital for investment and expansion.
As a result, the IBJ became a pivotal source of funding for growth during the 1960s and 1970s.

Although the IBJ was classified as a commercial bank and often categorized among the other major Japanese banks, it also differed significantly in that it had no retail business of its own. While other banks could thus extend corporate loans from their pool of household savings, IBJ was forced to issue bonds and notes in the public market or borrow from other banks, often regional financial institutions. As a result, IBJ emerged as one of the more sophisticated major lenders in Japan, with substantial skills in bond trading and equity underwriting, as well as close relationships to smaller regional banks.

IBJ's financial skills and capabilities were further honed by its participation in international markets. Like many other Japanese banks, the Industrial Bank of Japan followed its customers overseas in the 1960s and 1970s, setting up subsidiaries in major financial centers such as London, New York, Hong Kong and Singapore. As a result of its focus on bond trading and equity underwriting, IBJ soon became one of the leading Japanese banks abroad, competing directly with foreign lenders on their home markets. The London branch in particular excelled and competed successfully with major international banks.

Despite the international scope and skills of IBJ, its domestic operations were very much oriented towards the traditional norms and practices of the main-bank system. Although the IBJ was relatively more sophisticated than some of the other major Japanese banks, the majority of its lending was still extended through bilateral loans. These loans were in turn handled by relationship managers (RMs). These RMs, organized according to different industries, maintained strong linkages to customers and had final say over the lending. Like other Japanese banks, the IBJ hence put significant emphasis on volume lending as a way of both increasing revenues and, more importantly, solidifying the banks status and position in the Japanese economy.

Initial Impetus for Adopting Loan Syndication at IBJ

Because of its embeddedness in the main-bank system, the Industrial Bank of Japan also faced a significant rise in non-performing loans as a result of the crisis in the 1990s. By the mid-1990s, the situation had become so severe that the bank began to withdraw from many of its
international positions, recalling managers from foreign-based subsidiaries to headquarters.

One of those recalled from overseas was Shusaku Minoda, a 23-year IBJ veteran and head of the bank’s London securities branch. Like many of his colleagues working abroad, Minoda had grown increasingly critical of Japanese banks’ lending practices which he saw as risk-prone and out of tune with international financial markets. By the time Minoda was ordered back to Tokyo headquarters in 1998, IBJ found itself in a state of crisis and disarray, weighed down by non-performing loans and facing increasing international borrowing costs as a result of new regulations from the Bank of International Settlements.

Because of their experience and knowledge of international financial markets, Minoda and other returnees were assigned to a small group within the bank, tasked with selling of non-performing loans to foreign corporations. As Minoda noted, however, the group struggled to unload the loans because the practice was completely unheard of in Japanese financial circles:

“It was a first in IBJ history, or in Japanese bank’s history, to sell the loan. Nobody knows the price of the loan, even though they had been setting spreads on the loan, when they tried to sell it in the market, they didn’t know how to price it...”

In particular, the correct pricing of the loans was made very difficult because loan interest rates had not been set to reflect risk or market price, but rather were based on a host of other immeasurable factors linked to the relationships of the main bank system and the status of banks:

“...the pricing of the loan did not reflect the real risk of the borrowers...it reflected several different types of things like relationship, history or maybe premium or something like that, several things, expectations, but not real risk...”

Based on his experiences in London, Minoda became convinced that loan syndication offered a solution to the pricing problems of the bank. Moreover, loan syndication would not only enable correct pricing, it would also lead to better portfolio diversification of the loans since they could be traded when the risk was too high. Perhaps most significant of all, Minoda believed loan syndication could become a new business
opportunity for the bank, specifically focusing on fee income through the arrangement of syndications, as opposed to simply interest income, which had made up the bulk of income under the traditional main bank system.

Armed with a belief that correct loan pricing, portfolio diversification and fee-based income were the keys to solving IBJ's problems, Minoda sought managerial approval for setting up a loan syndication desk at IBJ in 1998. Despite upper management's deep skepticism of the proposal and strong belief that loan syndication would not work, Minoda managed to get approval for his plan.

Early Loan Syndication Efforts: Trials and Tribulations

In 1998, Minoda and his small team thus set about trying to introduce loan syndication at IBJ and its customers. Realizing that loan syndication was a significantly different business model they tried to convince external borrowers and lenders, as well as other internal IBJ staffers of the merits of the new business practice in a number of ways. They showed graphs and calculations to argue forcefully that the old main bank system was unsustainable and would lead to ruin in the long run. They moreover provided examples of successful syndications by Japanese banks in the United States and Europe to back up their claims. Minoda argued to anyone who would listen:

"...we have to change the way we do banking. ...regardless of what you did in the past, I don't care, in order to protect the future of the banking industry... syndicated funds should be deadly necessary...we cannot afford to be in the same situation where we cannot sell the loan...otherwise we will face the same kind of problems as the last 10 years when the banking industry almost went bust, we cannot afford to repeat the same thing again."

In early 1999, the team finally had a breakthrough when a major Japanese utility company agreed to borrow using loan syndication. To Minoda and his team's chagrin, however, the company insisted on keeping the deal secret, for fear of alienating their main bank and receiving undue attention in the market place:

"...they said 'Yes, I will do a syndicated finance'. But then they said 'Please, keep it secret!' ...they really didn't want to destroy the order of their traditional banking relationship. ...IBJ was the second bank, so it was deadly secret combination...also earlier loan syndication was done with
Throughout 1998 and early 1999, Minoda’s group failed to close any official loan syndication deals; in fact, with the exception of the large electric power company, there were no syndications at all. Within IBJ, the attitudes to loan syndication ranged from disinterest to outright hostility. Externally, both lenders and borrowers were skeptical of the new practice. Minoda even tried to talk to journalists to explain his ideas and get greater exposure through the media; without a concrete example to point to, however, publishers were unwilling to run the story simply based on Minoda’s beliefs and thoughts:

“I tried to convince people by giving them all those reasons and theories and so on. But at the end I determined that ok, the people in this country cannot be convinced in theory. Theoretical talk, even though it’s deadly right, people will not accept it emotionally.”

7.2 Internal and External Impediments to Adoption

The opposition to loan syndication encountered by Minoda and his colleagues can be traced to both internal and external constituents, including borrowers and investors. This opposition was moreover based both on potential negative economic effects, as well as notions of illegitimacy and normative-deviance, as discussed below.

Internal Impediments to Adoption: Opposition by Relationship Managers

Internally, one of the biggest obstacles facing IBJ and other banks was the deeply rooted tradition among relationship managers (RMs) to focus exclusively on generating as big loans as possible. This strategy in turn stemmed from the income structure under the main bank system; banks’ earnings were mainly generated from interest on loans (hence the bigger the underlying loan, the larger the interest), and auxiliary businesses such as M&A advisory and equity issuance.

The auxiliary businesses in turn were linked to the size of the loans; the banks with the largest lending to the company were always approached first for corollary services. In addition, the strong relationships that resulted from the underlying assets gave banks
The Paradox of Foreignness

significant influence over management practices and strategies at client firms. In the words of Hiroshi Yamamoto, a colleague of Minoda’s on the IBJ loan syndication team with experience in London and currently head of Mizuho Corporate Bank’s Syndicated Loan Division:

"...because corporations were involved with one main bank for so many years, individual transactions were never considered on their own merit. Instead it was the overall group of transactions between the bank and its client that mattered...and so this type of environment [focusing on overall services] naturally developed."

As loan syndication effectively challenged this system, it was initially widely opposed by relationship managers. To begin with, they saw their source of income diminish as loans were portioned off to third-party syndication members. Minoda for example recalled reactions by relationship managers when he tried to introduce the new practice:

"....relationship managers in IBJ said 'Why do we have to give my loan to somebody else? This is the result of this relationship and I am in charge. And this is the fruit of my relationship. Why do I have to give my precious fruit to regional banks or others which is nothing for me, that is ridiculous, completely ridiculous.' Everyone was saying no to that."

Significantly, relationships managers also felt that their standing with individual customers could suffer. Loan syndication effectively meant that traditional customers’ loans would be farmed out to third-party constituents, many of whom the customers had little if any prior relationship to. RMs found it difficult to approach their historical customers with a message that the bank no longer could or would be willing to service all of their financing needs. As Minoda further noted:

"....relationship managers often didn’t want to tell their customers to do loan syndication. Because their job is to sell the loan, and now they have to tell them we cannot lend. This is very difficult for them..."

This opposition by RMs to loan syndication was echoed several times throughout interviews with a number of bankers at IBJ, as indicated by the quotes in Table 7-1 below.
Table 7-1: IBJ/Mizuho Relationship Managers’ Attitudes to Loan Syndication

<table>
<thead>
<tr>
<th>Speaker</th>
<th>Position</th>
<th>Quote</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hideki Kurabayashi</td>
<td>Manager, Loan Syndication Division, Mizuho Corporate Bank</td>
<td>“Many RMs asked ‘loans give interest and that’s income, why would we pass this on to someone else?’ In addition, syndication loans are sometimes bought and sold between institutions, but the hold-to-maturity way of thinking was dominant among banking staff. And...being a main bank meant that you carried lots of loans on your book; so if the loans go down, then how do you retain and maintain the main bank role? So that’s how all the bankers thought, inevitably.”</td>
</tr>
<tr>
<td>Shusaku Minoda</td>
<td>Former Division Head Loan Syndication Division, IBJ &amp; Mizuho Corporate Bank</td>
<td>“…they said ‘No, I don’t understand what you mean. We are the bank, we have to hold all the loans which we lend. I really don’t like to sell it, I really don’t like to syndicate it out. I really don’t know what you are talking about and I don’t think you can do that.’ that’s the reaction I was getting…”</td>
</tr>
<tr>
<td>Jouji Okada</td>
<td>Senior Manager, Loan Syndication Division, Mizuho Corporate Bank</td>
<td>“…in Japan, the RMs held the loans, so it was their treasure, it was the treasure of the bank. And they couldn’t understand why they should give up their treasures to someone else. Why should they give them away?”</td>
</tr>
<tr>
<td>Hiroshi Yamamoto</td>
<td>Division Head Loan Syndication Division, Mizuho Corporate Bank</td>
<td>“…the RMs didn’t want to sell off the money they had raised to external investors. And so even we said that “it will diversify our risk” there was little incentive for them to do it…”</td>
</tr>
</tbody>
</table>

External Impediments to Adoption: Borrower Uncertainty

Externally, the successful spread of loan syndication hinged upon acceptance by both the borrowing entities, i.e. corporations, and third-party lender, i.e. financial institutions like regional banks, life insurers etc. These actors in turn had their own doubts and uncertainties about the old practice, especially in terms of how it differed from the lending practices of the traditional main bank system.

The main bank system was not only a deeply institutionalized cultural and normative assumption among bank clients, it also constituted very real economic benefits for individual corporations. In particular, firms relied on their main banks for financial aid and cheap credits during times of economic difficulty. The economic motivation for maintaining this support was the large loans held on the books of the banks; a company with enough loan exposure to a single bank would always be helped because if it went bankrupt and could not repay debts, the bank’s own balance sheet would suffer. In essence,
large loan portfolios meant companies became "too large to fail" from the eyes of banks, thus receiving aid and cheap credit to ensure their survival. These sentiments were evident in the responses Shusaku Minoda received when trying to promote the new practice at clients:

"...the borrowers, they say 'Why is my main bank, IBJ, telling me to borrow money from somebody else? As a main bank you are always telling me to give you full support. Now you are telling me that instead of dealing with only IBJ, I have to deal with 10 different banks which I have never seen before? I don't know those banks, I don't have a relationship with them - I can't deal with them, I cannot. I rely on you to give me 100% of the loan. This is the commitment you should show to me as a main bank, as I show my commitment to you.'"

Under a loan syndication system, not only would new loans be dispersed among multiple investors, old loans might also be traded to unknown third-party financial institutions. As a result, borrowers feared their importance to the banks would diminish. They also feared any new lenders or owners of loans could be more demanding and less forgiving of the firm and its operations during periods of poor performance.

The extension of loans to unknown third-party financial institutions was also seen as unfavorable by customers who feared they might be forced into new relationships. Basing their assumption on the main bank system's close correlation between loan exposure and relationship-depth, customers believed that if their loans were extended to organizations beyond their control, this might lead to unwanted solicitations for business, what Jouji Okada, a senior manager at Mizuho Corporate Bank's Syndicated Loan Division, called "over-banking":

"Customers [do] not want an over-bank kind of situation. If we sell these loans to for example regional banks, they'll approach the customer directly to try and build up ancillary business and build up a relationship. But the customer doesn't want such many banks."

In addition, borrowers also feared the signals loan syndication would send to other banks. As noted in Chapter 4, the main bank enjoyed preferential information about borrowers, hence other lower-ranked lenders benchmarked its lending. Since loan syndication meant the main bank would reduce its own exposure (by syndicating out loans to third parties), borrowers feared this would be interpreted as a sign that
the company was in financial difficulty, hence reducing lending from other borrowers. As Hideki Kurabayashi, a manager at Mizuho Corporate Bank’s loan syndication division, explained:

“If banks who until now have been lenders all of a sudden say ‘we are going to sell your loans to someone else’, then the [bottom companies in particular] will of course ask ‘Does this mean you’re not going to support us any longer?’ And this creates problems for the company’s finances and so they pleaded with the banks ‘Please, don’t do it, give us a break’.

This notion also extended to the case of the secondary market, i.e. loan trading, whereby banks sell loans to third-parties, separate from any direct syndication. This was especially sensitive as customers who had initially borrowed from one bank in the belief that it was their main bank and chief supporter now might find part of their loans being held by an unknown regional bank or foreign hedge fund. Okada, the senior manager of Mizuho’s Syndicated Loan Division, noted:

“It’s difficult if the customer thinks it is [borrowing from] us and then the asset is with for example a foreign hedge fund. [T]he clients want to believe we are still their main lender, it is important that our commitment is still there. And they don’t want to know that we are selling in the market.”

Borrowers also balked at the idea of paying fees for the new service. Previously, the only costs of borrowing had been associated with interest rates and while client corporations had often dealt with numerous lenders, they had managed all of these processes in-house. The notion that the main bank would not only ask the client to borrow from unknown third entities, but charge an extra amount for this unseemly behavior appeared ludicrous to many clients. Masato Ishida, a relationship manager at Mizuho, explained:

“...we had discussions about loan syndication around 1999, but the idea of paying fees to us and on top of that having to ask other banks for money, there was very little understand or recognition for that, among Japanese companies. And the reason for that was that that client companies all had their own personnel who were responsible for banking relationships, and they went around to the banks one by one to find people willing to lend to the company, and they told us ‘We have no intention of letting you do this for us instead.’”

As the quote from Ishida above indicates, the opposition to loan syndication stemmed not only from the increased fees, but also
because it would effectively reduce the client company's own close relationships with external banks, effectively handing these over to IBJ.

**External Impediments to Adoption: Investor Suspicion**

The norms and expectations that had developed around lending and relationships in the main bank system similarly served to create barriers to acceptance among local Japanese participants and third-party investors. IBJ and other banks focused, in particular, on getting regional banks to take part in loan syndications; however, many of these were initially suspicious of buying loans from the large banks. Under the traditional lending system, banks would never give up loans since these were their key to maintaining strong relationships and generating further sources of income. In the words of Okada, loans were the banks' "treasures"; investors were, thus, deeply suspicious as to why banks would be suddenly willing to give up these treasures. Manager Hideki Kurabayashi worked extensively with external investors during this period and described the situation:

"When loan syndication initially appeared, the regional banks said 'no thank you'. They thought 'Why are you giving us loans? I bet they're bad, aren't they? There's something wrong with them otherwise why would you give them to us - loans are supposed to be held until maturity It's weird and suspicious'...that's what everyone felt."

As the quote shows, the opposition to loan trading was exacerbated by the fact that loan trading in the late 1990s and early 2000s was primarily associated with non-performing assets, since these were the first types of loans that had been traded. Moreover, these non-performing loans had been issued primarily to foreign institutions, including so-called *hagetaka* or vulture funds. As a result, regional banks believed the "treasures" they were being offered were really poorly performing assets of which the bank wanted to rid itself.

As noted in Chapters 4 and 5, loans in the Japanese main bank system were more than simply lines of credit or forms of financing; they were the basis, and reinforcement, of close relational ties that put banks and their clients "in the same boat", as one banker expressed it. As a result, lending to organizations with whom the bank had no personal relationship was out of the question under the norms of the
main bank system. Minoda described the reaction of regional banks to offering money to organizations about which they knew nothing:

"Loans should be...done bilateral. Loans should be extended based on a mutual relationship with the company. So, not knowing this company, having no relationships with the company,...we will not lend loan to this company.' That's what they were saying."

Economic and Normative Barriers to Adoption

As the quotes in Table 7-2 indicate, both borrowers and investors viewed loan syndication as something uncertain and suspicious. This was primarily because it ran counter to many of the underlying notions, norms, and assumptions of the main bank system.

Table 7-2: IBJ/Mizuho External Client Attitudes to Loan Syndication

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Position</th>
<th>Quote</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hideki Kurabayashi</td>
<td>Manager, Loan Syndication Division, Mizuho</td>
<td>&quot;For customers, taking loans from a financial institution which they cannot see...this is difficult.&quot;</td>
</tr>
<tr>
<td></td>
<td>Corporate Bank</td>
<td></td>
</tr>
<tr>
<td>Hiroshi Yamamoto</td>
<td>Division Head Loan Syndication Division,</td>
<td>&quot;The borrowers were living in the Japanese financing tradition...there was little incentive to do loan syndication. They said 'Why doesn't the bank lend us funds like it used to, just lend us money like you've always done.' No one wanted syndication.&quot;</td>
</tr>
<tr>
<td></td>
<td>Mizuho Corporate Bank</td>
<td></td>
</tr>
<tr>
<td>Jouji Okada</td>
<td>Senior Manager, Loan Syndication Division,</td>
<td>&quot;. banks were put in a very awkward position, we had to tell clients that we are adopting this new business model and that there would be a higher margin than previously enjoyed.&quot;</td>
</tr>
<tr>
<td></td>
<td>Mizuho Corporate Bank</td>
<td></td>
</tr>
<tr>
<td>Masato Ishida</td>
<td>Relationship Manager Loan Syndication Division, Mizuho Corporate Bank</td>
<td>&quot;...for people in charge of funding, fees was something they couldn't explain or get approval for, and shareholders would not accept it. So they asked the bank to keep lending like previously...&quot;</td>
</tr>
<tr>
<td>Hideki Kurabayashi</td>
<td>Manager, Loan Syndication Division, Mizuho</td>
<td>&quot;There was no thinking about buying loans. Selling of distressed assets was there, Japanese banks were big sellers of distressed assets. But they weren't buyers. And almost all the buyers were foreign banks.&quot;</td>
</tr>
<tr>
<td></td>
<td>Corporate Bank</td>
<td></td>
</tr>
<tr>
<td>Shusaku Minoda</td>
<td>Former Division Head Loan Syndication Division, IBJ &amp; Mizuho Corporate Bank</td>
<td>&quot;'Why are you giving this loan to me? I should be very suspicious, skeptical. Is there something wrong with this company? There is no way you are incentivized to sell a good loan. Why are you telling me buy it? I can't take it, I can't trust you.'&quot;</td>
</tr>
</tbody>
</table>
It is clear that the vestiges of the traditional main bank system accounted for significant internal and external obstacles to introduce loan syndication; these hindrances can also be understood in terms of their impact on economic incentives and more deeply held norms, beliefs, and traditions. Borrowers and lenders worried about how loan syndication would impact what one former IBJ banker called the "moral commitments" of the main bank system, whereby banks promised to stand by their borrowers, regardless of what happened. But borrowers and lenders also had very real and tangible economic incentives in ensuring that parts of the main bank system remained unchanged, including price levels on loans and the information signals that reduced lending by the main bank might send to the overall market.

For relationships managers, syndication not only ran against their ingrained view of loans as "treasures" and "fruits" of their labor, they also saw the new practice as an inherent challenge to their traditional focus on interest-based income. These significant incentive and norm-based obstacles, outlined in Table 7-3, needed to be overcome in order to successfully adopt and introduce loan syndication.

Table 7-3: Economic and Normative Barriers to Adoption

<table>
<thead>
<tr>
<th>Constituent</th>
<th>Barrier</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship managers</td>
<td>Economic incentives</td>
<td>Loss of income as loan &quot;treasures&quot; are shared with competing banks</td>
</tr>
<tr>
<td>Relationship managers</td>
<td>Social relationships and expectations</td>
<td>Weakened ties with customers; difficulty explaining to customers that the bank cannot offer loans</td>
</tr>
<tr>
<td>Borrowers</td>
<td>Economic incentives</td>
<td>Detrimental &quot;signaling&quot; effects of reduced lending; higher costs of borrowing</td>
</tr>
<tr>
<td>Borrowers</td>
<td>Social relationships and expectations</td>
<td>Trust in main bank; implicit &quot;moral commitment&quot; of banking; new relationships with unknown entities</td>
</tr>
<tr>
<td>Investors</td>
<td>Economic risks</td>
<td>Lending to unknown entity</td>
</tr>
<tr>
<td>Investors</td>
<td>Social norms and behavior of banks</td>
<td>&quot;Why would the main bank give us their loans? Suspicious...&quot;</td>
</tr>
</tbody>
</table>

From 1999 until 2002, Minoda's small group struggled to overcome these barriers, building gradual support for the loan syndication market. During 1999, IBJ managed two syndications; by the end of 2000, the number had grown to 9. Despite these early successes, the Japanese loan syndication market was still small, and the number of clients - both borrowers and lenders - willing to take part in loan syndication was low.
Moreover, while some relationship managers at IBJ had begun to view the practice more favorably, many maintained their opposition. This opposition was compounded by the fact that the loan syndication team within IBJ constituted only a small part of the bank’s total operations; the majority of lending was still focused on bilateral relationship-based lending in line with the traditional main bank system, as Minoda explained:

“Even though we are doing good, we are only a small part. Main bank lending is like 80% of all business in the bank, we are only small part. So then, it's difficult to change the big portion, just bit by bit like that.”

7.3 Overcoming Internal Barriers to Adoption: The Mizuho Merger

As it turned out, the opportunity for furthering the development of loan syndication presented itself through the creation of the Mizuho Financial Group. As the heavy load of non-performing loans continued to take their toll on Japanese banks, a merger wave hit the industry and in April of 2002, the country’s major commercial banks were merged into a number of so-called mega-banks. As part of this process, IBJ, along with Fuji Bank and DKB, were integrated to form the Mizuho Financial Group. The formation of the Mizuho Financial Group provided the impetus for further developing loan syndication in a number of ways.

Management Emphasis on New Business Models: the Creation of the Syndicated Loan Division

To begin with, the creation of Mizuho sparked a search for new business models. Faced with an enormous consolidated balance sheet and severe difficulties in its retail operations, top management of the newly created bank opened up for expanding into novel business practices that had, hitherto, not been a part of the traditional main bank’s role. Seeing his chance, Minoda approached the CEO to suggest expanding the loan syndication team as one part of the strategy.

After a summer of deliberation, upper management took an active decision in the fall of 2002 to create a loan syndications division, increasing Minoda’s previous team of 30 bankers to over 200 and making loan syndication a major part of the group’s future corporate banking strategy. The fact that loan syndication was a central strategy
The Paradox of Foreignness

can be garnered from the Mizuho Financial Group's 2003 Annual Report. In conjunction with the creation of a separate entity, known as the Mizuho Corporate Bank, the report specifically describes loan syndication as a core future strategy:

"Expansion of the Syndication Business: We are working to become an asset turnover-type solution bank through active promotion of the domestic loan syndication business and the securitization business. In order to satisfy customers' needs in the syndication business in particular, we are building a broadly-based support system to assist with customized after-care in such areas as organization building portfolio analysis advisory services, and credit and corporate research know-how." (p. 24)

While loan syndication was an attractive new business area because of its ability to reap greater fees, respondents noted that management also saw it as a broader tool for refocusing the routines and strategies of the bank, specifically away from those of the main bank system. Hiroshi Yamamoto, the former IBJ manager and current head of syndicated loans at Mizuho Corporate Bank, noted for example:

"...our board of directors at the time believed syndicated loans to be the perfect vehicle for changing old thinking and improving risk sharing in one swift move"

By the end of 2002, three months after the official announcement by management, Mizuho's new loan syndication division was officially inaugurated. At the initial meeting, Minoda emphasized in particular the importance of the new practice and its role in the overall financial system:

"I told them 'This is kind of the creation of a new era, this is the creation of a new bank. Mizuho won't be the same, we'll differentiate this bank from others by establishing the strongest syndication team at this bank.'...everyone was sharing the same message that we're gonna create a new market, not only for the sake of Mizuho but also for the sake of the Japanese financial market. And that message was quite clearly shared by everyone.... even Mr. Saito [the CEO] attended that meeting and said the same thing, it's quite exceptional that he came in."

The actions of the Mizuho board, hence, sent a clear message to the organization that loan syndication was a legitimate lending form here to stay. As the loan officer Kurabayashi noted:
“In one stroke top management took the existing syndicated loan team and expanded its resources...so this sudden move kind of sent the signal ‘we’re doing this’ and thanks to this demonstration [of commitment] there was a general feeling that ‘this bank is really serious about doing this’ and management was showing the way.”

Yamamoto, the head of loan syndication further added:

“It was top-down, definitely. A bottom-up of this thinking would never happen.”

Re-arranging Internal Relationships and Structures

In contrast to the other mega-bank mergers occurring at the same time, the Mizuho amalgamation was unique in that it specifically sought to break down barriers between the three merging banks and thus form a completely new entity. As a direct result of this strategy, previous ties and relationship within the three banks were dissolved as individuals were spread across vastly different groups and divisions. Hideki Kurabayashi, formerly of the IBJ and now a manager in Mizuho’s Syndicated Loan Division, noted:

“...initially all three of the banks were merged into one and after that the organization was divided into different groups...And so people were split up...it wasn’t necessarily so that IBJ became the investment bank and Fuji became retail or anything, it was all mixed up.”

This “mixed up” situation also applied to the newly created loan syndication division, which was populated by employees from all three of the predecessor banks. Many of these individuals had moreover held diverse positions in their pre-merger organizations, including trading, sales, and relationship management. Minoda saw this loosening of traditional ties and relationships as an advantage in pushing for the adoption of loan syndication:

“People said IBJ must be very frustrated to have Mizuho and that there was a big battle between those three big banks. But for me it was good news because I could have a lot of different types of people in the syndication team. From day one, I told them ‘I will treat the three banks’ people equal. I will not give any favor to my ex-bank IBJ. I will not give any hard time to ex-Fuji or DKB, I will treat everyone equal. We are all having the same goal to achieve, which is to create a big syndication loan market here. And we don’t need to worry about the background. Because it’s a good thing to have a totally different background.”
Growing Japanese-Style Loan Syndication

The new division was comprised of 200 staffers, 100 of which focused on pricing and managing loan syndication deals, while the rest were divided between origination (that focused on creating deals), distribution (that focused on sales to investors) and the secondary trading desk. In addition, a separate unit focusing on portfolio management was set up: Among other things, this unit became in charge of deciding when and how customer loans would be sold or traded on the secondary market.

An initial challenge for Minoda in making the new division operational was to train all of the new members of the division; many of them had never before been involved in loan syndication and were unsure of its various functions. To do this, Minoda, Yamamoto, and others with experience from loan syndication abroad developed in-house learning manuals that were distributed among employees. In designing these manuals, Minoda and others did not draw directly on their experiences in London, New York, or elsewhere. Rather, they sought to develop a home-grown version of loan syndication, which would fit the local Japanese market. Minoda explained:

"IBJ was doing syndication in London but I didn't use that, I developed my own. Because the banking business we are doing is totally different. You know the way we are doing loan syndication, still it's a Japanese loan, and so we have to reflect all those you know manuals and everything, and so I had to create my own."

In addition to manuals, new recruits to the division were trained in recurring seminars, taught by Mizuho employees with previous experience from loan syndication. This especially included members of the small loan syndication team at predecessor banks such as IBJ, Fuji Bank, and DKB. Senior staffers charged with starting loan syndication operations also travelled overseas to study and learn from foreign banks in, for example, London and New York. Steven Hughes, a manager in loan syndication at the Royal Bank of Scotland, remembers being visited numerous times by Minoda:

"...he went to see our guys in London, seeing what best practice was in the globe and to see how Mizuho could introduce that into the Japanese market. He was interested in what we were doing, what things were like in Europe."
Notably, the management at Mizuho’s loan syndication division did not actively study or learn from foreign firms in the local Japanese market. This was despite the fact that foreign financial institutions such as Citibank had already made headway in introducing the practice. David Tropp, in charge of loan syndication at Citibank during the time of Mizuho merger, recalled that while he was often in contact with Minoda, it was usually to introduce him to managers in New York or London, not to offer advice about Citibank Japan’s loan syndication business. Minoda in turn suggested that the practices and strategies used by the foreign banks in Tokyo were not compatible to the domestic Japanese market:

“...Japan is a different market, a special market, we need to build a Japan-specific market. So, those foreign banks, they way they do things are not always compatible with the Japanese-style market, lending and so on...”

As the quotes in Table 7-4 below indicate, several other bankers at IBJ/Mizuho echoed this sentiment. In particular, they pointed out that the foreign bank’s practices, were ill-suited to Japanese banks.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Position</th>
<th>Quote</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hiroshi Yamamoto</td>
<td>Division Head, Loan Syndication Division, Mizuho Corporate Bank</td>
<td>“...in the foreign banks, there are lots of individual players that move from one bank to another. For Japanese it has not been very frequent to move from one company to another...so that’s a different kind of thing between Japanese and foreign banks.”</td>
</tr>
<tr>
<td>Jouji Okada</td>
<td>Senior Manager, Loan Syndication Division, Mizuho Corporate Bank</td>
<td>“We have a certain belief that the American or European way does not fit into our company. So... Japanese banks will develop things on our own.”</td>
</tr>
<tr>
<td>Hideki Kurabayashi</td>
<td>Manager, Loan Syndication Division, Mizuho Corporate Bank</td>
<td>“...even if you understand the nature of the loan syndication business, operations and business practices at foreign and Japanese banks are quite different, the thinking is different, the mind is different. And so the challenge was to apply loan syndication to the practice that already existed at Japanese banks. That was what Minoda had to do.”</td>
</tr>
</tbody>
</table>

Incentivizing and Adapting Loan Syndication to Gain Internal Support

While the members of the new division were united around the idea of loan syndication, they still faced considerable skepticism from staffers outside the division, particularly relationship managers unwilling to
The Paradox of Foreignness

depart from income-based main bank system. To convince these employees, Mizuho began to put in place new performance measures and incentive schemes. Relationship managers whose salaries had previously been tied to lending volume began to be judged based on the level of fees they were generating from customers. As Hiroshi Yamamoto, the Head of Mizuho’s Loan Syndication division, noted:

“The RMs didn’t want to sell off the money they had raised to external investors. And so even if we said that ‘it will diversify our risk’ there was little incentive for them to do it, and so we had to say that ‘it will lead to arrangement fees’ and this became the motivation for the RMs.”

In addition to introducing new incentives schemes, Mizuho also adapted the loan syndication product to defuse some of the major objections from relationship managers. For example, portfolio management divisions often control loan syndication by setting hurdle rates, maximum hold barriers, and instigating loan trading to reduce overall portfolio risk. At Mizuho, by contrast, the portfolio management’s division initially played an advisory role; while it could recommend that loans be syndicated or sold on the secondary market, final decision and, hence, ownership of the loans remained in the hands of the relationship managers themselves.

This initial structure subsequently began to evolve in a step-by-step fashion; by 2007, relationship managers still maintained final say over the loans, but the portfolio management division’s clout had been increased. Over time, management plans to complete the transition to full control by the portfolio management division.

This type of step-by-step and incremental approach to introducing loan syndication is also evident in the relationship managers’ performance-based incentive schemes. Hideki Kurabayashi, who had been working with loan syndication since his time at IBJ in the late 1990s, noted for example:

“To promote the management’s thinking about capital we bit by bit included greater importance to [how] capital [was being used] in evaluating the work of the RMs. So bit by bit we included that kind of thinking”.

Regardless of its step-by-step nature, the Mizuho merger had a significant effect on relationship managers and their willingness to consider loan syndication. Hidekatsu Masuyama, a relationship manager at Mizuho, noted for example:
“...before the merger... there was no guarantee that the loan syndication market would spread in Japan, it was more piecemeal... after the merger Mizuho has really focused on strengthening the platform of the service and expanding it. And after that the positive attitudes towards loan syndication have also increased.”

The Mizuho merger, thus, provided the impetus for promoting loan syndication on a large scale with the internal banking organization. Through a combination of top-down management decisions and the loosening of old internal relationships, Mizuho was able to establish an entirely new loan syndication division. By implementing a new rewards system and adapting the process to fit existing norms, Mizuho was also able to gain support for the new practice among relationship managers and other employees that had previously opposed the practice. While part of this process was connected with incentives, it was as much oriented towards changing deeply held values, mentalities, and assumptions on the part of local staffers. As Kurabayashi, the loan syndication manager, noted:

“...we needed to change the way of thinking and management style....the board was the first to realize that we needed a change, they saw this early on and invested the resources and money necessary, but the management style and mentality also had to be changed. ...we haven't changed that drastically, but it's coming bit by bit, step by step, and so in this way we have been working and will continue to work....”

7.4 Overcoming External Impediments to Adoption

In addition to emphasizing loan syndication internally within the organization and creating new incentive systems, the Mizuho merger also led to renewed efforts to convince borrowers and lenders to adopt the novel practice. While some of these had been prevalent in Mizuho's predecessors, as noted in the earlier discussion of IBJ, the merger and the increased resources and focus allocated to the loan syndication division, intensified efforts to spread the practice locally.

Enlightenment and Education

To encourage the use of loan syndication, Mizuho employees actively sought to inform customers in what Kurabayashi called an “enlightenment” effort. Often accompanied by a member of the
syndication department, with specialized knowledge of the product, Mizuho staff explained loan syndication in detail to each of its borrowers. Okada relayed a typical explanation:

"...we of course highlight the merits to satisfy them...there are four different aspects, including IR, expansion of funding source, increasing corporate value and restructuring... using the loan syndication for restructuring. In addition, gathering a large amount of money all at once from multiple banks, the total costs become quite large. So with the money they save on transaction costs by doing loan syndication, client firms can do something else."

Notably, even when the client was not originally interested in loan syndication, Mizuho would use any client meeting opportunity to broach the new practice and point out its advantages. Along with focusing on the cost merits of loan syndication, Mizuho also emphasized that the reason for implementing the new system was to ensure that the non-performing loan problems that had plagued the economy during the 1990s would not re-occur. While this was rarely a major argument; in some cases, especially when the customer had experienced severe problems during the 1990s, it was an added incentive. Kurabayashi noted:

"...in one sense, after the banks experience the financial crisis they were less willing to hand out money and this of course had a negative effect on the companies. And so in this sense, it did help a little bit, some people who were more aware of this situation maybe listened a bit more to the story about loan syndication"

In addition to individual visits during which it pushed for loan syndication, Mizuho also arranged general investment seminars, supported by its own in-house research department, in which potential participants were given information and advice about investment opportunities in various markets and industries.

As noted in the previous chapter, investors and participants in loan syndication encompass a wide range of financial institutions, including hedge funds, investment firms, pension funds, and securities companies, etc. In 2002, Japan had few domestic institutional investors of this type, owing to the bank-oriented traditional lending system. However, there were several foreign institutional investors operating on the local market. Many of these had experience from earlier loan syndications arranged by foreign
banks and had also worked directly with Mizuho and its predecessors when the Japanese banks were selling off their non-performing loans, as described in the previous chapter.

Rather than approach these foreign investors that already had the necessary know-how and expertise of loan syndication, Mizuho focused its efforts on the smaller Japanese regional banks. According to the managers of the loan syndication department at Mizuho Corporate Bank, there were several reasons for focusing on regional banks as opposed to established foreign institutional investors. To begin with, regional banks were a fertile ground for marketing the new product. Regional banks often dominate their local prefecture and, thus, have large savings pools from individuals. These savings were often bigger than the investment opportunities in the local region; hence, the banks are left with sizeable cash holdings, but nowhere to investment them.

Moreover, even when the banks could invest in their own region, local companies and businesses were often engaged in similar industries and businesses. This, in turn, exposed the banks to greater risk during economic downturns in a specific sector. There was pent up demand among regional banks for new investments that could diversify their portfolios and reduce their risk. Okada explained:

"[In] the regional communities, lots of people deposit money but the regional banks have less opportunity to...use that money, so their deposit is higher than lending. Also, their lending is to local regional industry...each region has its regional industry that is very strong and so a certain bank ...would be exposed to the local industry risk. And so in order to diversify they had to buy loans in order to build a portfolio that would be diversified."

Another reason for focusing on regional banks as participants and institutional investors was due to the reactions of clients. Japanese firms valued their relationships with banks and saw them as part of their business network and important constituents in their affairs. Establishing relationships with unknown foreign entities was, therefore, seen as a big risk. Kurabayashi explained:

"Japanese borrowers, they don't like borrowing money from foreign firms that much....Foreign banks might be active on the market here for a while but if it suffers or goes down, they can just pack up and leave, this has happened before. But we, Mizuho, we can't do that because we are a Japanese bank. And the customers know this."
The Paradox of Foreignness

A final reason for focusing on the regional banks was that they constituted part of Mizuho's market building strategy. In particular, the bank believed that, in order to build a sustainable and functioning domestic market with numerous third party institutional investors willing to share the risk, not only were regional banks important players; they were also better choices than the foreign banks whose long-term commitment and role in the market was uncertain. Kurabayashi thus explained:

“If we wanted to win the deals or just to get a deal done it would have been good to invite the foreign institutional investors in the beginning, but if we only do that, the market won't grow. So, in order to develop the market and educate we invited the regional banks.”

Leveraging a New Identity: The Mizuho Name

Minoda and others had certainly visited numerous customers to propagate for loan syndication even during the time of IBJ; the Mizuho merger increased the potency of these visits not only by supplying greater funding and upper management support. It also created a totally new organizational identity. As noted above, IBJ, DKB, and Fuji Bank adopted a completely new name in their mergers; by comparison, Sumitomo and Mitsui simply combined their names to form the Sumitomo Mitsui Banking Corporation (SMBC). According to Hideki Kurabayashi, the new name signaled the creation of an entirely different organization, as opposed to a continuation of the past:

“We wanted to create a completely new brand, to signal that we are no longer connected to the past, that we will do new things. So for example, SMBC, even though the name is different, people always think of Sumitomo. If we'd kept our names, there wouldn't have been any meaning with the merger... we are no longer Fuji, we are no longer IBJ, and so we decided to change the name.”

The new name and identity that came with the merger made it easier for relationship managers to break with tradition when visiting customers. Rather than being identified with the old IBJ, the old Fuji or the old DKB, the visiting RM could point to the completely new entity and explain that loan syndication was a part of the brand new policy and that the old main bank's practices had been changed. Masato Ishida, a relationship manager at Mizuho explained as follows:
Chapter 7

"...previously with the old main bank...customers took it for granted that they could approach us and ask for money, but with the merger, the financial institutions began introducing a lot of new and sometimes strange things. And so I think customers became aware and understood the changing banking practices.... And for companies who understood this it became easier to introduce loan syndication."

Mizuho’s name and status also encouraged the adoption of loan syndication by investors. As noted earlier, loan syndication had previously been the domain of foreign banking institutions, while loan trading itself had been closely identified with non-performing loans. As Mizuho actively promoted the practice, regional banks came to view the practice as more legitimate and acceptable. Okada explained:

“In previous deals with foreign firms, the regional banks had a fear that they were being fooled by not knowing the details of the transaction. But when we join in...they know that Mizuho won’t fool them because of the long relationship we’ve had with them and the long relationship we’ll have to have in the future.”

Through its actions, Mizuho also acted as an implicit guarantor of the underlying loans. Okada commented:

“We are also at times a credit enhancement for the regional banks... because if they see Mizuho still holding on to the loan, they will have comfort to see that Mizuho is not selling everything and getting away from the loan. And besides the borrowing they might have questions and so on about the company or the product and if certain events come up we can have a bankers’ meeting and so on.”

Adapting the Loan Syndication Product

In addition to leveraging its new name, Mizuho also sought to allay the fears and uncertainties among borrowers and investors by adapting the nature of its product. The earliest syndications were, for example, limited to so-called sub-participation basis, meaning Mizuho effectively acted as a wall between the borrower and the lenders. Borrowers were unaware of exactly from whom they were borrowing (apart from Mizuho), and lenders were likewise not told the identity of the final client. Sub-participation particularly allayed fears of over-banking among customers, assuring them that, even if the loans were dispersed to unknown third-party agents, Mizuho would continue to act as the
The Paradox of Foreignness

go-between and be their primary bank. Jouji Okada, a senior manager at Mizuho's Loan Syndication division, recalled:

"...as long as Mizuho fronts everything, then [customers] aren't so reluctant. [The] lender on record is still Mizuho....we have participation from other banks...but they cannot be seen from the client."

As the number of loan syndications grew, however, the sub-participation system became untenable and Mizuho was forced to open up the lending process, making customers and borrowers visible to each other. As this increased uncertainty among borrowers in particular, the bank instead utilized so-called club syndications (essentially invite-only deals) where the financing participants were limited to organizations that had previous relationships with the client, or which had been approved by the client before-hand. As Hideki Kurubayashi, a loan syndication manager noted:

"[The reason for] club syndication was to keep the borrower calm, to ensure the borrower that the money was only coming from organizations they knew. The point was to not bring anything too new to the borrower, to keep it relatively simple and not make any great changes."

In order to further appease fears from customers that loans would not end up with unknown third party entities, Mizuho also allowed borrowers to submit black lists of the types of institutions (or sometimes even specific companies) that they wanted to exclude from the syndication process; this practice has continued up until the present day, as Okada explained:

"...clients have very clear instructions on which banks they want to be invited to be a part of the syndication. The...list is always there, they don't invite this bank, they don't invite this institution, and so on..."

Loan trading was another area where original practices were altered in order to appease fears and uncertainties among customers. Formally, the secondary loan trading desk buys and sells loans without consulting borrowers, much as any bond or equity trading desk. In practice, however, the loan trading desk at Mizuho informs and receives approval for any sale from the relationship managers. Hiroshi Yamamoto, the head of the loan syndication division at Mizuho explained:
Chapter 7

"...they are not supposed to have any connection because the secondary market is supposed to be a non-relationship basis function, but having said that, it's a Japanese bank and a Japanese company and so if the loan traders are buying and selling all the time these guys get mad. The borrowers and the RMs, both of them get upset..."

Mizuho also sought to overcome opposition from customers by maintaining some elements of the main bank system. As described in Chapters 4 and 5, top-ranked banks in the main bank system constituted lenders of last resort, ready to provide financial support if all other borrowing avenues were closed. Many customers worried about this aspect in loan syndication insisting that the bank maintain its de-facto guarantee of financing. To assuage these fears, Mizuho opted for always maintaining a buffer in its lending limits to individual customers, enabling the bank to extend direct loans if the need ever arose. Hideki Kurabayashi explained as follows:

"Another factor is that of course there is a thinking that Mizuho can act as lender of last resort. So in other words, you start by raising money from the market and if that doesn't fully complete the quota, then Mizuho will take the remainder...and so we maintain a gap in the limits, a buffer, just in case..."

Incentivizing Loan Syndication

In addition to adapting loan syndication to fit local needs, Mizuho also enticed borrowers and investors to try the new system through special incentives. Mizuho for example offered borrowers discounts by reducing its hurdle rates from the loan syndication deal. This was a core strategy, aimed to convince customers that the new system would not adversely affect their total borrowing costs. Jouji Okada, senior manager in the Mizuho Syndicated Loan Division, explained:

"We try to make sure that the total expenditure for the client is well managed to a similar level [as the past] by reducing the spreads. We try to guarantee that the overall expenditure for the client would not be materially be changed, for example by reducing the spreads and that kind of thing."

Hidekatsu Masuyama, a relationship manager at Mizuho, similarly noted:

"...in terms of fees, we explained that the company had to look at the overall cost picture. ...we would present the costs of the total package and how
The Paradox of Foreignness

much funding we could raise ...and we would adjust the interest rates on
the funding as we went along in order to balance the overall costs for the
client”.

As previously noted, customers were often particularly hesitant to
agree to having their loans traded in the subsequent market. In order
to convince them to agree to this, Mizuho at times offered rebates and
reduced interest to customers. Hiroshi Yamamoto, the head of
syndication noted:

“To be honest, if we say that we want to make the loans transferable and the
borrower then says ‘well in return, lower your spreads’, well then, that is
probably a fair fight. And this does happen in some cases, some kind of
compensation [is given to the client].”

In the case of investors, Mizuho would offer similar special arrange­
ments or incentives. In some cases, when the investor was unsure of
participation, Mizuho would find a middle ground and offer loans that
were already partially expired; investors could, thus, limit their risk by
only being involved for a limited number of years instead of the full
term of the loans. Jouji Okada explained in detail:

“You also have the situation where you have a 5 year credit and now it’s
already at the end of the 3rd year, and although an investor may not be
comfortable with the whole five years, there may be willing to try for 2 years.
Especially when the previous three years have a good track record and we
can show that the interest payment service has been made on time. And so
then it may be possible for the investor to be comfortable enough to carry the
loan for the last 2 years.”

These initial trials and test cases by individual regional banks were
crucial to gaining acceptance for loan syndication, according to
Kurabayashi:

“...it was important to get them to try loan syndication and have them
understand... 'see, you understand now, it's not something strange'. And
then they understood and would be willing to buy loans or participate in
loan syndication”.

As loan syndication gained popularity among regional banks and
demand for syndications increased, Mizuho also went out of its way to
ensure that investors could access as much of the underlying loans as
possible. At times, Mizuho reduced its own share of the underlying
loan to near zero levels, even when this contradicted its own internal strategies and relationships vis-à-vis borrowers. Okada noted:

“When it was attractive to regional banks we took a small position, sometimes zero, no take. And so when the demand was high, sometimes we take zero.”

Formation of the JSLA

As part of the strategy of promoting loan syndication, Minoda and others on his team also played important roles in founding the Japan Syndication and Loan Trading Association (the JSLA). Through the JSLA, Mizuho sought to develop common industry regulations and documentation standards. Significantly, this effort was undertaken in co-operation with other leading banks (including, for example, Sumitomo Bank) as well as regulators and academics. This group-oriented effort was not by chance, but reflected a deeply held view that the growth of loan syndication required a common industry approach. Jouji Okada, a manager at the loan syndication division at Mizuho, recalled:

“These are things that really, one bank alone can’t come up with and so there are certain aspects that should be decided on and developed in a group of banks, right? And so these thinks are considered by everyone together in JSLA, and so it’s that kind of an organization.”

While the JSLA’s standards were not legally binding, they provided a format for consolidating market practices and made syndication processes easier for banks, borrowers, and investors. All banks and potential investors had membership rights, including foreign banks, regional banks, and non-bank financial entities. However, the megabanks were the most active in creating the organization and continued to be so in forming the subsequent documentation. Moreover, the management of the JSLA is jointly held by the three mega-banks and rotates among them on a biannual basis. As Hideki Kurabayashi, a manager in the Syndicated Loan Division, noted:

“...there’s no rule saying you have to use JSLA’s documentation but from the regional banks and the investors perspective, it is of course easier, rather than having to constantly deal with all these different standards and documentation forms.”
Legitimizing Loan Syndication: the Role of Media Publications

In addition to creating the JSLA, Minoda and other Mizuho staffers, along with lawyers, academics and other megabank bankers, also published numerous articles in the Japanese business press and professional finance journals, stressing many of the same points the bank had raised in individual consultations with borrowers and lenders. For example, several of the articles emphasized that loan syndication constituted an entirely new form of business for the megabanks (not just Mizuho) and would, thus, redefine the nature of relationship-banking Japan. In an article for the *Kinyuu Journal*, an industry publication, Minoda wrote:

"...the relationships that the megabanks maintain with their enormous number of customers...were not founded over a brief space of time...these are not relationships that just anyone can have. These relationships must henceforth be shared with other financial institutions, either by including them in loan syndications or by selling the loans to them in the pursuit of increased revenues. This will entail an entire new form of financial intermediary role and be a central attribute of the megabanks business." (Minoda, 2003a:69)

Moreover, while a nascent loan syndication market had emerged prior to the formation of Mizuho, Minoda linked its general expansion and growth specifically to the formation of the megabanks, essentially arguing that from 2002, loan syndication would emerge from the shadows as a major form of financing in Japan:

"As for 2002, I would like to call this year 1 of loan syndication. The reason for this is that 2002 was the year when the four megabanks emerged... the expansion of the loan syndication market is connected to a large revolution in the business model of the megabanks and can be seen as a movement to create a new financial intermediary role." (Minoda, 2003a:68)

In his articles, Minoda also sought to particularly encourage Japanese regional banks and other smaller financial institutions to take part in loan syndication. Labeling loan syndication as a form of "market-based indirect financing", which thereby straddled the purely market-based financing of typical loan syndication, and the traditional main-bank system, Minoda forcefully argued that loan syndication could serve as a new business model for strengthening the finances of regional
financial institutions and improving the overall state of the Japanese economy.

"Syndicated loans provide an efficient solution to the problem of regional risk-concentration and low return on assets facing all regional banks. The key word is "Portfolio Management". The process of upgrading to this practice is connected to a general overhaul of the structure for business management. I expect that even when portfolio management skills are equal, the financial institutions that are able to fully integrate notions of risk into their operations will emerge as the leaders in the financial services industry." (Minoda, 2003b:12)

While the need for loan syndication had arisen during the early to mid-1990s and reached critical proportions during the crisis years of 1997 and 1998, large scale adoption and attempts at implementation began to take place in 2002. These adoption and diffusion mechanisms were intimately linked with the creation of the megabanks, and Mizuho in particular. The Mizuho merger galvanized critical resources and assets for the successful implementation, in terms of knowledge, man-power, and branding - even as it served to weaken some of the barriers to efficient adoption prevalent at IBJ and other early adopters of the practice.

It is particularly evident that the move to expand loan syndication on the local market was taken proactively in the wake of the merger. This is reflected in the decisions of the management team, the enlightenment and education strategies of the syndication division, and the public marketing and standardization of the practice through media and the creation of the JSLA.

7.5 The Nature of Loan Syndication at Mizuho Corporate Bank

In adopting loan syndication, Mizuho made the switch "from origination, to origination to distribution", in the words of Jouji Okada. In other words, as opposed to the traditional system, where the loan originated with one bank and stayed on its books, the new system involved origination plus subsequent distribution among various third-party financial institutions.
Significantly, a reduction in non-performing loans and a rebalancing of the loan portfolio could have been achieved without loan syndication; Mizuho could have complied with BIS regulations and rebalanced its portfolio by lending less to certain customers and sectors while continuing to write off non-performing loans. For Mizuho, as well as for the other major banks, however, a key aspect of the lending strategy was to continue to be able to service their existing customers and their borrowing needs, a sentiment well exemplified by the following quote from Okada:

“When we say origination to distribute, it means maintaining main bank position, but doesn’t necessarily mean the bank needs to hold onto all the pieces of loans.... we should always keep the books clean in order to respond to the new deals and new transactions. I mean we cannot say: ‘oh, our limit is full, sorry, please bring it to another bank.’ We cannot do that, and so we need to keep our books clean; we always need to be ready for a new deal.”

Loan syndication was, thus, seen as a way of solving the considerable non-performing loan and portfolio management problems without giving up the important main-bank type relationships that had long characterized banking operations. The emergent model that resulted came to be seen as a combination of the loan syndication done overseas and the traditional Japanese lending practices inherited from the main-bank system. This is exemplified in the following quote from Jouji Okada, as well as other interviewee responses listed in table 7-5.

“It’s in between the commercial bank kind of mentality and the investment bank mentality kind of thing. We do take the assets, not like the U.S. investment banks. But at the same time, we do the selling as well.”

He went on to contrast this with the approach of non-Japanese banks active in the local Japanese market:

“... we always blame the American investment banks who arrange the deals, the seller who does not even take the portion means when we’re buying it we get kind of suspicious. If you’re so confident about the loan, why don’t you still want a certain portion of the stake in it?”
Chapter 7

Table 7-5: Integrating Loan Syndication with the Relationship-Based Approach

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Position</th>
<th>Quote</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hideki Kurabayashi</td>
<td>Manager, Loan Syndication Division, Mizuho Corporate Bank</td>
<td>&quot;...the old main bank system had to be changed into what we could call the new &quot;core bank system&quot;. ...the relational pipe is still broad and deep...we have no intention of replacing all our bilateral relationships with loan syndication, nor would it be possible even if we wanted to do.&quot;</td>
</tr>
<tr>
<td>Hiroshi Yamamoto</td>
<td>Division Head Loan Syndication Division, Mizuho Corporate Bank</td>
<td>&quot;...the fact is that there hasn't been any full scale change or conversion [to loan syndication]. Relationships still exist and we have no interest in severing these relationships, of course. Because relationships are very important. However, what has to be changed is the extreme case when firms survived on bilateral loans only.&quot;</td>
</tr>
<tr>
<td>Hidekatsu Maruyama</td>
<td>Relationship Manager, Mizuho Corporate Bank</td>
<td>&quot;...in terms of expectations, customers want us to be arrangers and agents...they believe that if the main bank takes large share of the lending, this will signal that the main bank is taking a large responsibility for the overall syndication loan...And expectations of this function of the main bank continue to this day.&quot;</td>
</tr>
<tr>
<td>Shusaku Minoda</td>
<td>Former Division Head Loan Syndication Division, IBJ &amp; Mizuho Corporate Bank</td>
<td>&quot;Loan syndication didn't replace the main bank system, it allowed it to continue, it is a way of maintaining the relationships, in a new form...&quot;</td>
</tr>
<tr>
<td>Yoneo Sakai</td>
<td>Former Treasurer Mizuho Corporate Bank</td>
<td>&quot;...to be honest, the main bank system is still existing. The borrower side would like to keep one guaranteed bank, as long as they need money they can ask that bank. And that's the sort of mind the borrower has, and so that's the reason why they would like to keep the good relationship with one or two particular main banks.&quot;</td>
</tr>
</tbody>
</table>

7.6 Delays in Implementing Loan Syndication

As noted in earlier chapters, many of the larger market-based features that led to the implementation of loan syndication had been evident in the Japanese market many years before the Mizuho merger. These included the waning power of the Ministry of Finance, tighter regulations by the Bank of International Settlements, and not least of all, the corrosive effect of the growing non-performing loans on banks’ balance sheets. In addition, Japanese banks had been active in the international loan syndication market for several decades, even as foreign banks had been using loan syndication domestically in Japan.
since the mid-1980s. One question is, thus, why it took so long for banks to finally make the decision to adopt the practice.

According to the interviewees, a number of factors played important roles in delaying the decision to actively introduce loan syndication. To begin with, regulations by BIS were long ignored by local Japanese bankers whom were primarily focused on the domestic market. In the words of Okada:

"The general perception of Basel among the Japanese banks was that it was a very faraway international regulation that doesn't have to be strictly complied, because it was far away. So long as we comply to the Japanese government, it shouldn't restrict us from banking activities, because the chunk of banking activities were domestic. So Japanese banks didn't take it too seriously at the time."

Another aspect often mentioned was the continued faith in the traditional main bank system and particularly in the notion that banks could not fail. These beliefs were notably sustained even in the face of the mounting non-performing loan problems. Up until the crisis year of 1997, the general feeling was that situation would solve itself, somehow, as Kurabayashi explained:

"In 1993, it hadn't yet gotten bad. Deep down, people still believed that somehow, some way, [the crisis] will be solved; if the economy gets better then the banks will all get better. And I think the bank and its people especially thought this. The prevailing notion had been that banks can't fail, that was the policy of Japan, to support the banks. People just couldn't and wouldn't accept that the banks might go bankrupt - they wouldn't let them - and so they worked for several years to try and make the situation better in the old system."

This notion is well exemplified by Minoda's memo to IBJ headquarters in the early 1990s and his failed attempt to bring attention to the potential crisis. By 1997, as bankruptcies began to appear in the industry, this sense of security and belief in support from the Ministry of Finance had, however, collapsed as Kurabayashi noted:

"...and then there were all those bankruptcies in 1997, I think that's the point, it was really a watershed year, a lot big banks went bust and so they decided that no, it doesn't work anymore. Probably the banks, as well as the industry and regulators, for example the FSA, were a little late in realizing the need for a new lending form."
Chapter 7

The banks in particular were feeling the pain of the post-bubble recession and the financial problems associated with non-performing loans prior to 1997. Yamamoto suggested that changes could have come earlier, had the banks been more willing to push for it. In particular, he suggested that the knowledge gained overseas could have been used more actively sooner:

“I believe the lack of change in the loan syndication market during the early 1990s and the lack of knowledge flow from overseas was because of the banks. If the banks had had a stronger will then it maybe things could have changed more and faster.”

Impediments to International Knowledge Transfer

Significantly, both attitudes and knowledge in support of loan syndication did exist at the international subsidiaries of Mizuho and its predecessors; IBJ was especially active for many years in loan syndication and securitization in, for example, the London market. However, there was very little knowledge transfer between these international outposts and the local headquarters in Tokyo. Yamamoto, who previously served in London, explained:

“... the international department and the domestic departments were very different organizations. Effective knowledge exchange and development was really non-existent. So, the international market was very much for study, but this study was not at all useful for the domestic market. ... gaining knowledge from the international department really relies on knowledge transfer, right? We really didn't have this.”

Minoda put it more bluntly:

“... it's kind of always this frustration, people say: “This is Japan, you cannot just bring in English or American ways; we have our own way.” So, [the foreign] knowledge is discounted... everyone came to me and said: ‘Hey, have you become a foreigner? You're not Japanese anymore?’ And when I say: ‘But this is the way the American market is doing it, and this is a good way, why don't you do that?’ They say: ‘Well, we are having our own banking way.’ So almost all those ideas are ignored.”

A Lack of Learning and Imitation of Foreign Entrants

It is notable that, in discussing the adoption of loan syndication and the subsequent establishment of the market, none of the interviewees mentioned foreign banks competing within the same market on the
Japanese market. This is despite the fact that foreign banks, as shown in the previous chapter, had conducted several successful syndications throughout the 1990s. When prompted on this issue, the respondents often indicated that the role of the foreign banks in the local market were fundamentally different to theirs. In particular, they suggested that this impacted the foreign banks’ abilities to take part in larger market building activities. In regards to Citibank’s early loan syndication deal, Minoda remarked:

“...the first was Citibank, absolutely... but Citibank could never be considered as the pioneering deal of syndication because they didn’t explain it in that way; they didn’t call it that. What I did was mainstream... sometimes, doing the deal is not important; the record that you did a deal each year is not important. How that deal affected the entire market, how that deal gave imagination to the people, that is more important, that’s the key...They might insist: ‘We did the first syndicated finance.’ ‘So what?’ Whatever they did, it did not have a significant impact on society. And it’s the impact on society that counts.”

Responses from other interviewees echo Minoda’s sentiment, as presented in table 7-6.

Table 7-6: Differences in Foreign and Japanese Market-Building Activities

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Position</th>
<th>Quote</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hideki Kurabayashi</td>
<td>Manager, Loan Syndication Division, Mizuho Corporate Bank</td>
<td>“...if the Tokyo market isn’t good, foreign banks can just pull out, that’s occurred before. But Mizuho can’t do that. Japanese banks have to build infrastructure and develop the market, because they are Japanese.”</td>
</tr>
<tr>
<td>Jouji Okada</td>
<td>Senior Manager Loan Syndication Division Mizuho Corporate Bank</td>
<td>“...foreign banks were not interested in building a market. The relationship they had with regional banks was not as close as the local banks. And building a market doesn’t immediately lead to cash.”</td>
</tr>
<tr>
<td>Shusaku Minoda</td>
<td>Former Division Head Loan Syndication Division, IBJ &amp; Mizuho Corporate Bank</td>
<td>“...I think what those foreign banks are doing here, it’s for their own sake, for their own profit, they don’t care about market creation, they don’t care about the new market, they just want to make money...”</td>
</tr>
<tr>
<td>Jouji Okada</td>
<td>Senior Manager Loan Syndication Division Mizuho Corporate Bank</td>
<td>“...what [the foreign banks did], it’s not an approach that builds up a market and then leads the market to form a deal flow. And so it was a one-deal kind of approach that they made”.</td>
</tr>
</tbody>
</table>

As the discussion on external impediments to adoption clearly shows, the banks’ ability to drive systemic change hinged not only on
remaking their internal practices; it also relied on garnering crucial support from external constituents - including borrowers and lenders.

Notably, the idea that foreign banks played different roles and occupied separate positions in the market repeated itself in the discussion of constraints emanating from these borrowers and lenders. Yamamoto, General Manager of the Syndicated Finance Division of Mizuho who previously worked with Minoda at IBJ, noted the following:

"... [customers'] expectations on the foreign banks and their expectations and images of the Japanese bank are completely different. See, the foreign banks have a global basis and change with the foreign financial system, and so when the customers have needs for foreign financing and connections, they are happy to pay the additional costs of using foreign banks, because really, that's what it's about, costs. But then, on the other side, the Japanese banks, they say: "Oh but you don't need to do this, Mizuho, what are you talking about?"

Yamamoto's sentiments were echoed in several responses by other bankers, as shown in Table 7-7:

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Position</th>
<th>Quote</th>
</tr>
</thead>
<tbody>
<tr>
<td>Masato Ishida</td>
<td>Relationship Manager Mizuho Corporate Bank</td>
<td>&quot;...in the case of foreign banks, well foreign banks have built their relationships with customers abroad and so they are a bit of a special case, and so maybe this made it easier for them to approach customers.&quot;</td>
</tr>
<tr>
<td>Hidekatsu Masuyama</td>
<td>Relationship Manager Mizuho Corporate Bank</td>
<td>&quot;...when the foreign financial institutions did loan syndications in Japan, customers did not expect these banks, the foreign banks, to take the same share of lending on their books as the Japanese banks had. In the case of the foreign banks, the role of arranger and lender was seen as separate.&quot;</td>
</tr>
<tr>
<td>Hideki Kurabayashi</td>
<td>Manager, Loan Syndication Division Mizuho Corporate Bank</td>
<td>&quot;...in terms of why companies were willing to do syndication with foreign banks but not Japanese banks, I think it's important to understand that the role, and the expectations on the banks, are different.&quot;</td>
</tr>
</tbody>
</table>
7.7 Summary: IBJ/Mizuho and Loan Syndication

The preceding chapter has highlighted, in particular, the difficulties and challenges faced by IBJ and subsequently Mizuho in their introduction of loan syndication. Despite being a sophisticated investment bank with significant international experience and clout, the Industrial Bank of Japan was slow to adopt loan syndication. Even as managers returning from overseas championed the lending format and sought to expand its role, relationship managers and other operational staff, as well as top-management, actively opposed the new lending. Similarly, external customers also expressed considerable unease and suspicion of the new product. Among both internal and external constituents, this opposition to loan syndication was based not only on changing economic incentives, but also on misgivings about normative legitimacy of the new practice. Hence, both employees and clients saw loan syndication as a practice that deviated significantly from the norms attached to IBJ’s role as a traditional Japanese main bank.

As a result of this opposition, the adoption and implementation of loan syndication at IBJ/Mizuho took place incrementally and relied on extensive product adaptation; this was true both for internal aspects of the new product as well as its external customer specifications. Employing a range of legitimization strategies, including the creation of an industry association and public awareness campaigns in professional journals and newspaper, the proponents of loan syndication were able to overcome barriers to introduction over the span of five years. Notably, this adoption process took place largely without any significant benchmarking of foreign banks operating in the same market; since these organizations were seen as fundamentally different from local banks, their practices and processes were largely ignored as objects of imitation.

Aided by a combination of various legitimization processes, product adaptation to local norms and the merger of IBJ, Fuji Bank and DKB into an entirely new banking identity, Mizuho bank emerged as one of the top-ranked loan syndication outfits in the Japanese market.
Chapter 8

Shinsei Bank and Loan Syndication

The previous chapters have presented cases of how loan syndication was adopted and subsequently implemented at a fully foreign and fully Japanese bank, respectively. As noted in Chapter 2, however, there are also organizations whose foreign identity is difficult to determine based solely on their ownership or headquarter location. These firms are of particular interest in understanding foreignness because they can shed light on the nuances that differentiate the MNE subsidiary from the purely domestic and host country isomorphic organization. The current chapter reviews the loan syndication process at one such bank: Shinsei. As discussed in the research design chapter, the Shinsei case is primarily aimed to be a foil and addition to the main case studies of the preceding chapters; as a result, the current chapter is shorter in its scope and does not cover the introduction and implementation process to the same extent. However, it does shed light on some of the crucial aspects that differentiate the foreign and Japanese banks in their loan syndication adoption processes.

8.1 The Birth of Shinsei

When the Long Term Credit Bank of Japan (LTCB) declared bankruptcy and was nationalized in 1998, it created a sensation in Japan. The LTCB had long been seen as one of the stalwarts of the Japanese banking system; along with the Industrial Bank of Japan
The Paradox of Foreignness

and, to a lesser extent the Nippon Credit Bank (NCB), it was charged with handling long-term loans to Japanese corporations and had, thus, been a key player in many of the overseas acquisitions made during the 1980s. In a 1989 survey entitled This is the Bank Where I Want My Son to Work, LTCB far outpaced other major domestic banking institutions such as IBJ, Fuji, and Mitsubishi Bank to place in the number one spot.

The shock of having one of the country’s most famous and well respected banking institutions go under was magnified when the government subsequently announced that the bank would be sold to a consortium of foreign investors led by Ripplewood: a private equity company from the United States. In competition with a number of other bidders, including both foreign and Japanese banks, Ripplewood had managed to come out the winner and would now be put in charge of running and re-launching an organization epitomized by many Japanese as a quintessential part of traditional Japanese banking. In June of 2000, Ripplewood reopened LTCB’s doors under the name Shinsei, meaning rebirth in Japanese.

Implementing New Policies and Practices at Shinsei

The Ripplewood consortium’s vision for Shinsei was dramatic, yet simple: take a Japanese bank and run it on U.S. financial principles, focusing on shareholder value, efficiency and profitability. Traditional main bank lending practices were eschewed in favor of a focus on bottom line earnings grounded in hard numbers and financial ratios; historical relationships were no longer sacred and troubled borrowers unable to meet interest payments could not expect debt forgiveness or new credit lines. In her widely read account of Shinsei’s birth, Saving the Sun, Gillian Tett for example quotes the new CEO Masamoto Yashiro as proclaiming:

"Success for Shinsei is guaranteed as long as we do just the opposite of what traditional Japanese banks have been doing."

(Tett, 2003:185)

A former manager at Citibank Tokyo, Yashiro was well versed in the management of U.S. banks and he quickly set about overhauling the old LTCBs organizational structures and processes. Among other things, he abolished the central planning committee and emasculated
Chapter 8

the power of the HR department. He also introduced promotion and pay based on merit, rather than seniority, and installed a completely new IT system: sourced from an Indian company, rather than rely on the mainframe built by LTCB's long term partner Fujitsu. The new managers appointed by Yashiro set about retraining staff, attempting to wean them off the traditional lending mentalities of the LTCB in favor of routines and processes highlighting efficiency, productivity, and earnings.

The LTCB had not had any significant retail business, but Shinsei made this a priority, introducing novel services such as internet banking as well as abolishing ATM fees and surcharges on account transfers from outside banks. Shinsei also overhauled the physical look of the bank; the previously grey and solemn building interior was repainted in blue, the bank's official color, and a large eye-catching logo was mounted in the main lobby. A Starbucks coffee outlet and Yahoo Internet café were also installed for customers waiting to be serviced.

On the corporate side, the bank pursued new policies vis-à-vis borrowers. With an increased focus on profitability and bottom line earnings, Shinsei put pressure on companies to meet interest payments on loans and began negotiating new loan issuances based on risk calculation and minimum internal hurdle rates, as opposed to historical relationships and social networks.

Shinsei's new internal policies and practices soon began to challenge the norms and traditions of the main bank system. When Sogo, a major department store and long-time customer of the now-defunct LTCB, approached Shinsei in the summer of 2000 to ask for loan forgiveness, the bank turned down the request, citing its new financial management policies. This effectively put Sogo on the brink of ruin, with several billion in outstanding non-performing loans. Shinsei then proceeded to exercise a clause in the initial purchase contract negotiated by Ripplewood, which allowed the bank to hand over its non-performing loans to the government. The government, fearing the political ramifications of letting Sogo go bankrupt, promised to bail out the troubled retailer using tax payer money.

In addition to refusing to extend Sogo's loans, Shinsei also unilaterally submitted bankruptcy proceedings to a Tokyo district court on behalf of one of its borrowers, First Credit, which had failed to repay loans and interest. The bank also declined bailout loans to Daiei, another large and ailing retailer.
Shinsei’s focus on profitability and return over relationships was mirrored in the practices of the other two foreign-owned Japanese banks: Aozora and Star Bank. As noted in the pilot study, Todd Budge, CEO of Star Bank, introduced a “straighter business style” and was unafraid to introduce new strategies and practices even when these clashed considerably with the gentleman’s agreements of the Japanese banking industry. Aozora’s leadership similarly emphasized profitability and return, even if this meant cutting off traditional borrowers.

**Shinsei’s Public Image: Fallout from Norm-Deviant Behaviors**

The unorthodox behavior and strategies adopted by Shinsei propelled the bank into the public and political limelight. Some pundits, not the least foreign experts, cheered the bank’s new approach as heralding a new wave of necessary and positive reform in Japanese banking. One long-time foreign expert on Japan working in Tokyo argued in an editorial in the *Daily Yomirui* newspaper:

"The true pioneer is Shinsei Bank. ... Shinsei Bank is well on the road to doing to Japanese banking what Nissan Motor Co. did to Japan’s car industry: raise overall efficiency and demonstrate to the world that Japan can still compete... Shinsei demonstrates there can be a bright future for banks in Japan." (Koll, 2002:3)

Shinsei’s actions also led to negative reactions. Shocked and disturbed by Shinsei’s behavior, a number of healthy long-time corporate clients transferred their loans from Shinsei to other more traditional Japanese banks (such as Mizuho and SMBC), thereby ending their relationships with the bank. This phenomenon particularly accelerated after the Sago bankruptcy. Major Japanese banks also actively stepped in to bail out poor borrowers rejected by Shinsei. Daiei, the ailing retailer, was subsequently bailed out by the three megabanks: UFJ, SMBC, and Mizuho (Nikkei 2002c).

Internally, a number of long-time employees that had been inherited from the old LTCB also began to leave Shinsei because of its new management practices. Major newspapers ran several articles and special features highlighting the difficulties of working under foreign management. One piece reported on a Japanese LTCB executive in his mid-40s who was considering switching jobs after his new foreign manager began demanding faster results and greater performance; the
article described Shinsei’s approach as a “cold-blooded management style” (Asahi, 2002).

Reactions from the political establishment were similarly harsh. In her book, Tett quotes a leading politician from the opposition Democratic Party of Japan proclaiming:

“No, with Shinsei, Japanese people have seen the predatory face of capitalism - a type of capitalism that lives by the law of the jungle.” (Tett, 2003:208)

Shinsei’s actions had negative spillover effects on other foreign investors attempting to acquire failed banks. When the U.S. venture capital entity Cerberus attempted to acquire a struggling domestic bank, one newspaper described it as the next “...‘heretic bank’ on the heels of Shinsei...” (Nikkei, 2003). Regulators at the Financial Services Agency vehemently opposed the Aozora deal, arguing:

“It would be just like Shinsei Bank...It won’t bear in mind banks’ obligations to society.” (Nikkei, 2003)

The FSA also sought to impose stricter regulations on investment fund ownership in banks, arguing:

“When shares are sold off to a group or individual whose management philosophies are completely different from those of the bank, its management continuity is jeopardized.” (Nikkei, 2002)

Foreign investment practices and management styles were often described as profit-motivated or as having little concern for the well-being of Japan. Indeed, Ripplewood and its individual owners were often criticized and bedeviled in the Japanese press. An executive at First Credit, the company for which Shinsei unilaterally submitted bankruptcy proceedings, was quoted in an article as saying:

“The [Shinsei officials] are cold-blooded, even considering the fact that the bank is under the management of a foreign company.” (Yomiuri, 2002)

The harshest criticism, however, was reserved not for the foreign funds themselves, but the Japanese regulators, politicians, and employees who were seen as supporting their work. In an opinion piece entitled “Who Turned The Shinsei Bank into a Traitor?”, a Japanese member of
The Paradox of Foreignness

parliament harshly criticized the government’s Financial Reconstruction Commission for allowing a foreign investment fund that “...could not care less whether the Japanese economy falls apart...” to buy the bank (Asao, 2000). Fumio Konya, an economist, suggested that “...the government, in its haste to resolve the bad-debt problem, is only helping foreigners to reap profits...”, using the case of the LTCB and Shinsei as an example (Konya, 2001).

Masamoto Yashiro, Shinsei’s CEO, came under similar intense criticism and scrutiny in the Japanese press, at times even being alluded to as a traitor. He was also forced to appear before parliament to explain some of Shinsei’s actions and was heavily berated by politicians. Tett retells one stern lecture that the Shinsei president received:

“You know the distinctions of how business is done in Japan and how it is done in the United States – you should know how the politicians here, who represent the Japanese citizens, feel about this. You should have taken the lead...and told the Americans that...is not how business is done here! You should tell the Americans that!” (2003:219)

Despite these tensions, Shinsei maintained its focus on underlying profitability and shareholder return. It also sought to implement other novel innovations, particularly in retail banking. As a result, the bank won back-to-back Asian Banker Magazine awards as the most innovative retail bank in Japan. In both 2004 and 2005, it also ranked number one in retail banking surveys in the Nihon Keizai Shimbun, Japan’s leading financial newspaper.

8.2 Shinsei’s Adoption of Loan Syndication

As with many other Japanese banks, the LTCB had taken part in loan syndications abroad for a number of years. The first recorded loan syndication was a guaranteed facility set up in 1985 for Promise: a consumer finance corporation. Throughout the late 1980s and early 1990s, what followed was a number of syndicated term loans to Promise and other consumer finance institutions, as well as syndicated loans to trading companies and foreign development companies. However, LTCB’s overall participation was small: during the 1980s, it did 13 deals, followed by 18 deals in the 1990s. LTCB took a wide variety of roles, evenly dispersed between that of arranger,
co-arranger, participant, and lender. As a result, the bank did have capabilities within its organization for loan syndication, but they were concentrated outside the domestic headquarters.

**Motivation and Rationale for Loan Syndication at Shinsei**

As Shinsei took over the operations of LTCB, its major focus was on ridding the bank of its non-performing loans and limiting its portfolio exposure; new management focused more on reducing lending than expanding it. During this initial period, no formal loan syndication team existed at the bank, although it still managed to take part as both participant and co-lead arranger in as many as 76 different deals up until 2003. In all but one of these, it played a minimal role as lender or participant.

The reason for the “shadow” role played by Shinsei was its precarious position. On the one hand, it wanted to maintain relationships with historical LTCB clients by continuing to lend; on the other hand, it also needed to reduce its amount of lending in order to reduce its balance sheet exposure. Participation in loan syndications offered a fitting solution to this problem; it allowed Shinsei to maintain lending, but at reduced increments. Despite partaking in the syndications, there was no formal syndication team in place. Instead, relationship managers that had previously been in charge of bilateral lending at LTCB shifted some of their focus to loan syndication\(^{10}\).

**Early Loan Syndications: a Focus on Balance Sheet Restructuring**

As part of its focus on return and profitability, Shinsei also actively sought to expand revenues from fee-based businesses, including mergers and acquisition-related advisory and securitization. In October of 2001, the bank announced a plan to securitize some of its existing investment grade loans for sale among third-party investors: a first for a Japanese bank. This was, in effect, very similar to the underlying activities of loan syndication, since borrower’s debts were being distributed to third-party investors, including Japanese regional banks.

\(^{10}\) To what degree this shift occurred is difficult to measure as the number of bilateral loans extended is not a publically available figure. However, considering that the LTCB had roughly 4000 corporate customers, the loan syndications must be seen as a very small share of total lending transactions.
The Paradox of Foreignness

The primary focus on reducing balance sheet exposure led Shinsei to focus directly on investors and their needs. Rather than starting with borrowers, the bank initially approached the issuing side to understand what kind of investments in which they were interested, as well as how this might impact the banks own balance sheets. Shinsei then investigated what assets it had available and how these might be structured for sale to bring in revenues. David Larson, Risk Manager at Shinsei Bank, explained:

"...we didn't really do a lot of loan syndications immediately...I think our first steps were more in terms of, what does your investor want? ...we were less motivated at that stage by 'Are we gonna do a domestic syndication and what do those local clients want?' as we were interested in...enhancing our own funding..."

Shinsei continued to take part in a growing number of loan syndications in the subsequent years: in 2003, it took part in 24 deals; 2004 saw 50 deals; and in 2005, the bank was a participant in 74 transactions. In both 2004 and 2005 it also acted as arranger or co-arranger for four deals. As a result, capabilities were growing within the bank for how to do loan syndication. Simultaneously, the securitization business had strengthened ties to regional investors and given Shinsei greater insight into their specific needs. In particular, regional banks had significant appetite for investing in corporate loans since these constituted not only relatively low-risk assets, but were also a way of establishing ties to new potential customers. Larson commented:

"So you had investors being those local banks who needed to get some sort of asset. And so our financial institutions guys, a large part of their job was to go talk to the banks in Japan, 1st tier, 2nd tier, as investors. What do you want? Do you want liquid investments, do you want something a bit less liquid? So, I'd say a lot of it came out of that."

By late 2004, the banks’ balance sheet had improved markedly to the extent that there was room again for renewed lending. Shinsei’s relatively small balance sheet, as well as its unwillingness to use it for direct lending due to the focus on profitability, meant that traditional bilateral lending practices were out of the question. As an alternative, management made the decision to formally introduce loan syndication as a product group of its own in 2005.
Chapter 8

Internal Implementation of Loan Syndication

Shinsei brought over Yoshinori Yokoo from UFJ, one of the Japanese megabank groups, in order to implement loan syndication. In the mid-1980s, Yokoo had joined Sanwa Bank, one of the UFJ’s predecessors. Starting in the normal job rotation scheme, he found himself in New York in the mid-1990s during which he did business promotion for U.S. corporates. He also arranged a number of loan syndications for Sanwa in the local U.S. market. Upon returning to Japan, Yokoo was assigned to the nascent loan syndication desk at UFJ (the result of a merger between Sanwa and Tokai Bank). When he joined Shinsei in September of 2005, Yokoo had significant experience both from loan syndication in Japan as well as the international market.

In many ways, Shinsei already had the necessary skills and assets to enter the Japanese loan syndication market; it had historical lending relationships with large numbers of Japanese customers, a large internal loan team with some anecdotal experience from previous domestic syndications, as well as important relationships to third-party investors, such as regional banks. Moreover, as the loan syndication market had, by this time, grown significantly and was becoming a mainstay of the Japanese financing market, there was generally a greater acceptance for the new lending form within the bank.

The primary challenge to Yokoo, however, was to find the suitable personnel for setting up the specific loan syndication product team. Due to a lack of specific skills within the bank, he sought to bring in outsiders with experience from the Japanese loan syndication market; this practice of bringing in outsider personnel had by now become common at Shinsei, as the company introduced external management, IT professionals and risk controllers after taking over LTCB. As a result of Shinsei’s lack of in-depth involvement in previous deals, however, Yokoo found it difficult to recruit for his new team:

“... Shinsei had a very low profile in the syndicated loan market and so when I asked my colleague, they say ‘Shinsei? Shinsei can do syndicated loan? I have never seen Shinsei arranging a syndicated loan.’ And also... most of the Japanese bankers, they are afraid they cannot speak English and so they say that if they are required to speak English then they do not want to transfer to Shinsei Bank.”
While external recruitment of specific personnel was a challenge, Yokoo faced fewer problems implementing the practice among existing staff. This was partly thanks to help and support from senior managers; it was also because relationship managers were facing difficulties in promoting loans on their own. Under Shinsei's new risk management guidelines, the total return on any lending relationship had to equal a minimum hurdle rate. In bilateral lending, this return came exclusively from interest, the only available source of income. Since Shinsei's internal hurdle rate settings were higher than those of competing Japanese banks, the interest it charged on bilateral loans was also uncompetitive in the market.

Relationship managers could lower the interest they charged customers and still be able to overcome the internal hurdle rate requirements since income in a syndication loan is made up of both the arrangement fee and interest (see further Figure 8-1). As a result, relationship managers were generally positive to loan syndication, as Yokoo noted:

"... [the relationship managers] were very happy because if I syndicate out and retain the arranger fee, then interest income plus arrangement fee combined together exceed the hurdle rate, and that persuades the senior management or risk people [at Shinsei] to approve the transaction."

---

Figure 8-1: Hurdle rates, Interest Income and Fee Revenues
Thanks to the newly formed group and support from relationship managers, Shinsei’s role in loan syndications increased substantially. The bank acted as bookrunner in 30 deals in 2006, and increased the total number of deals in which it took part that year to 108.

8.3 External Implementation of Loan Syndication

Similar to other banks, Shinsei’s ability to enter the loan syndication market hinged crucially on its ability to convince both customers and investors to take part in transactions. The bank’s late entry into the market meant that the initial uncertainty surrounding loan syndication had subsided; by 2005, numerous companies, as well as local banks, insurers and other investors, had taken part in loan syndication deals.

A significant drawback for Shinsei in entering the market was its uncertain status in the Japanese banking hierarchy. By ridding itself of the LTCB’s traditional focus on relationship-based financing in favor of profit-driven lending, the bank had alienated several traditional borrowers. As noted, this policy had also led to a focus on reducing the use of the balance sheet and generated revenues from fee businesses. A further potential problem was the overall stigmatization that Shinsei suffered during its early years as a result of the Sogo debacle and general antipathy against foreign investors taking over domestic companies.

External Implementation Among Investors

Shinsei was able to rely on its track record in other services when overcoming uncertainty among investors, chiefly Japanese regional banks; as noted, Shinsei had successfully closed a number of securitization and restructuring deals that involved regional investors. In an effort to share information and promote corporate restructuring together of ailing clients, the bank had also initiated formal tie-ups with regional banks shortly after its creation. These tie-ups were enhanced by the strong ties between the predecessor LTCB and regional banks. As a result, third party investors were generally positive towards working with Shinsei on loan syndication transactions.
The Paradox of Foreignness

Since investors were not privy to the same level of information disclosure about the client as Shinsei, it was important for the bank to maintain some loans on its books. This was, thus, a way of reassuring lenders and strengthening ties with them. Yokoo explained:

"... for the Japanese syndicated loan market, if we want to arrange the syndicated loan, we have to take some part as the lender. Otherwise, other lenders think: 'Ok, Shinsei is lending syndicated loan, but they are not taking any portion, that means that Shinsei is regarding this borrower as risky.' So in a syndicated loan, if we want to successfully complete distribution, even in a small portion, we have to take some."

Notably, Shinsei adopted this strategy even though internal guidelines called for not only strict hurdle rates, but also for minimizing the use of the balance sheet by syndicating out as much of the loan as possible. David Larson noted:

"... you would go into a loan and perhaps take a bigger piece than you would really want to ultimately hold, with the idea of selling it down..."

External implementation among borrowers

Shinsei's approach to borrowers was more challenging. In particular, some borrowers had been put off by the bank's new strategies and focus and, thus, resolved not to borrow from it. Others, even as they had come to understand the underlying strategy of the bank, were unwilling to borrow due to the competitive nature of the market. Yokoo noted:

"... at the inception of Shinsei Bank, RM had had a very tough time, negotiating with the borrower. They had to ask the borrower to pay back the loan or increase the interest rate. ... these days, I think [the borrower] understands Shinsei's requirements, so they either stop the relationship, or they expect us to provide other solutions which megabanks cannot provide...the RMs explain why we require minimum hurdle rate, [it's an] economically rational thing. So, I think many customers understand the logic but simply don't buy from us, because there are other competitors who don't have the same logic. ... Shinsei bank is not directly competing with megabanks and we are trying to find niche market to do business with"

Yokoo notes that competing Japanese megabanks also used similar hurdle rates, but were more likely to price below these in an effort to appease customers. In order to overcome this challenge, Shinsei
focused on a niche strategy; as Yokoo suggests, this meant that the bank sought to offer innovative solutions and practices that were unavailable from the larger Japanese banks. Hence, Shinsei was the first domestic bank to securitize its own loan base and it also focused heavily on buying and securitizing non-performing loans from other financial institutions. In terms of loan syndication, whenever possible, the bank would conduct deals based on competitive pricing, in a particular customer niche, as well as those that were investor-driven. Although it was a member of the JSLA, it took little active role in this organization or the overall development of the market, choosing instead to enter deals as opportunities arose. David Larson, Head of Shinsei’s Portfolio Management Group, explained:

“We’re kind of long Japan so we don’t have to stretch ourselves a lot to go get more Japanese exposure, unless it’s something... we think is incredibly good risk return. And occasionally things will come in that we find to be incredibly attractive and we’ll go: ‘Ok, this is one that we’ll buy into.’ But for every one of us those there’s other stuff, as I put it, you’re selling sand on the beach, there’s no value-added for you in doing it and the buyer shouldn’t pay you too much for it.

Larson further suggested that while Shinsei had the advantage of leveraging historical relationships passed on from the LTB, it also faced a different set of expectations from domestic borrowers, in comparison to Japanese banks:

“[Japanese megabanks] they have the good side of having thousands of relationships that we don’t have. But they also have the traditional Japanese expectations of what a lender will do. And, in our case, we will meet those expectations when they come up, but we don’t have to worry as much about that as Mizuho has to.”

At the same time, Shinsei’s niche position was also limiting. Specifically, it meant Shinsei often could not partake in deals with major traditional customers and hence had to focus on smaller segments which garnered less attention from the competing megabanks:

“Shinsei bank does not rank as a main bank among the customer base, and so normally we cannot be asked by the borrower to arrange syndicated loans. But some companies, like real estate company or finance companies, non-bank, consumer finance company, they want to borrow money from
The Paradox of Foreignness

whoever the lender is. ...in that case the relationship doesn't matter so much.”

8.4 The Nature of Loan Syndication at Shinsei

The internal management logic introduced the new foreign owners, coupled with the external expectations of Shinsei as a Japanese bank, had a direct effect on the bank’s loan syndication product and processes. To begin with, loan syndication at Shinsei was driven by a strict focus on returns and profitability. While lending in the old LTCB factored in existing relationships and offered cheaper interest rates when necessary, Shinsei’s goal was to maximize profit for its shareholders. In this regard, the transactions surrounding syndication were specifically focused on generating revenue for the bank. Syndication was also seen as an important tool for ensuring that the loan portfolio stayed healthy by reducing exposure to any one particular sector. As a result, Shinsei’s approach to loan syndication was a combination of these two aspects, as Larson noted:

“...[it's] kind of a different set of criteria than going to the local banks and saying: ‘Here’s a loan, do you want it, yes or no?’. ... we are still looking at... ways of taking our portfolio and saying: ‘Where are we a little bit heavily concentrated? What can we do to lighten up on those concentrations?’ and then, ‘If we free up some capital, risk capital or regulatory capital, how do we redeploy that particular fund in a way that would be overall accretive to the portfolio?”

As Yoshinori Yokoo explained, loan syndication at Shinsei is heavily driven by underlying economic fundamentals and profitability, especially in comparison to other Japanese banks:

“...UFJ bank which I was working for was a heavily balance sheet oriented bank so they liked using the balance sheet, even though those assets generated very thin spread. But Shinsei's mentality is if we can generate profit without using balance sheet, that’s the best thing...it's a very economically driven bank.”

As part of this focus on profitability, Shinsei also actively sought to sell as much of its original loan stake as possible, through syndications to third-parties, as David Larson explained:
"...we don't take reserves on these things but we try to reflect economic value through marking them, we try not to hold them more than two years, that's what our program calls for. So, it's a very disciplined approach...."

Despite the overwhelming focus on economic performance and return, however, Shinsei also had to temper its approach to loan syndication by the reality that many of its traditional customers still considered it a Japanese bank and expected it to lend according to old bilateral standards. Larson noted:

“If you go into a old house account, or even into most Japanese corporates, the expectation is that Shinsei Bank is a Japanese bank, and that means...you should be willing to lend at rates that other Japanese banks will do.... We have to keep buying admission tickets, which is lending, and so the real question is how many of those admission tickets do you want to keep buying, for how many years? And, Japan has a very long memory and I think if you exit these relationships, it's hard to get back in.”

The internal decisions of how to lend and to whom to lend involved a balancing act between the necessity for achieving underlying profits on one hand and maintaining Shinsei's role and expectation towards external customers, on the other. Larson suggested:

“... it's a very difficult market, but we are perceived as being a Japanese bank and so we are doing our best to find clients willing to be a bit more flexible in their thinking, clients that recognize that giving us a loan way off of capital markets pricing isn't a favor. So it's a balancing act; we don't want to lose clients but at the same time we can't just continue to be using our balance sheet for no apparent reason.”

This balancing act between external expectations and the internal goals is further evident in Shinsei's view of its own role and identity vis-à-vis customers. For example, the bank actively sought to position itself as situated between foreign and domestic banks, as CEO Thierry Porté explained:

“Shinsei has done what a lot of foreign financial institutions have done: taken ideas and innovations from other markets and brought them to the Japanese market... on the other hand, we are a Japanese organization and we are headquartered here and the bulk of our business is here so that puts us in a rather unique category. I think... certain categories of customers certainly appreciate the domestic aspect of our company... I think customers want to see someone whom they know and who they trust, and so being a Japanese institution is important in that regard"
The Paradox of Foreignness

David Larson put it as follows:

"We like to think that that we are more international than our Japanese competition, and more Japanese than our foreign competition. ... we'd like to fly under the radar of what Goldman Sachs is going after because they're going to hit the blue chip names. ... if we can keep the right lending relationships and if those are kind of below that radar, then we can hopefully marry those two skills. But it's a tough one to do."

8.5 Summary: Shinsei and Loan Syndication

The preceding discussion suggests that, although Shinsei bank had both internal support for loan syndication and entered the market as a relative latecomer, the bank faced a number of obstacles in adopting the novel practice. In particular, Shinsei's internal focus on economic fundamentals and profitability were misaligned with external customers' expectations and assumptions of the bank as a Japanese banking entity. Notably, these difficulties were evident even before the introduction of loan syndication, particularly in regards to Shinsei's early attempts to cut off financing to troubled traditional lenders.

Due to this mismatch between internal capabilities and external expectations, the bank had to enter specific sub-niches of loan syndication. It specifically lent to consumer finance companies and other organizations that were "willing to take financing from anyone" and that had been often ignored by major Japanese banks. At the same time, Shinsei was also forced to continue some traditional bilateral lending at low prices as a way of buying "entry tickets" into important local relationships.
Chapter 9

The State of Foreignness

The preceding chapters indicate that the introduction and implementation of loan syndication differed significantly across foreign and domestic organizations in general, as well as among the three focal firms of the case studies. A central question to be resolved is how and why these differences arose and what, if any, connection they have to foreignness.

In the current and ensuing chapter, I tie together the various findings of the empirical chapters to show that foreignness did, indeed, have an important impact on the strategic positioning of the foreign firms, as well as the decisions and subsequent reactions of host country competitors. As such, it also had a direct influence on how loan syndication was introduced, implemented, and subsequently diffused throughout the Japanese banking sector.

As I explain in the research design and methods chapter, foreignness is the primary independent variable of this study. At the same time, however, it is a variable that continues to be very much a black box – scholars have to date tended to conceptualize foreignness as a binary variable with few efforts at piecing apart the concept itself. While the primary goal of this dissertation is not to offer a universal definition or conceptualization of foreignness, a clearer understanding of the independent variable is crucial for understanding its effect upon organizational action.

The objective of this initial analysis chapter is, hence, to delve deeper into the concept of foreignness itself - specifically highlighting
The Paradox of Foreignness

how it impacts the internal and external organizational traits of the focal organizations. By doing so, I show in particular that foreignness played an important part in forming not only internal organizational attributes; it was also had a direct impact on external attributions (i.e. the assumptions, expectations, and demands for conformity emanating from other actors). Understanding these internal attributes and attributions is crucial for a subsequent analysis of the introduction and development of loan syndication.

9.1 Categorizing on Foreignness

An initial important question is how foreign or domestic the three focal organizations of the case studies are. This may at first seem highly obvious: Citibank Japan is the subsidiary of an American bank, while IBJ/Mizuho is an entirely Japanese bank. As discussed in the theory chapter, however, foreignness can be defined in a number of different ways: including ownership, headquarter location, the number of local employees, etc. Foreignness is, to a large extent, also a subjective phenomenon (i.e. it is defined in the eyes of the beholder, rather than based purely upon objective organizational traits).

In the current sample of case studies, these caveats are important. As Table 9-1 indicates, Citibank Japan has a longer history in Japan than either of the two other banks, relies upon a large numbers of local employees, and has previously had Japanese CEOs. While IBJ/Mizuho is headquartered in Japan, it has a significant international presence with large numbers of foreign subsidiaries. Perhaps of greatest interest, Shinsei Bank is majority foreign-owned and run, yet headquartered in Tokyo and registered as a Japanese bank. As a result, specifying whether local managers view the organizations as foreign or not is an important first step in the analysis.

Understanding how managers conceptualize foreignness is also important from a theoretical perspective. An underlying question of this study is the extent to which foreignness may enable or prohibit specific behaviors, strategies, or actions. If managers are unaware or ignore aspects of foreignness, then this would suggest foreignness is not an explicit component in decision-making and organizational action. A crucial question to be answered is, therefore, the extent to which managers at both foreign and domestic firms are cognizant and responsive to different levels of foreignness.
Table 9-1: Organizational Characteristics Related to Foreignness

<table>
<thead>
<tr>
<th>Trait</th>
<th>Citibank</th>
<th>IBJ/Mizuho</th>
<th>Shinsei</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official classification</td>
<td>Foreign</td>
<td>Japanese</td>
<td>Japanese</td>
</tr>
<tr>
<td>Foreign-owned?</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Current CEO foreign?</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Previous foreign CEOs</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Previous Japanese CEOs?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Headquarter location</td>
<td>United States</td>
<td>Japan</td>
<td>Japan</td>
</tr>
<tr>
<td>Foundation (in Japan)</td>
<td>1950 (1902)</td>
<td>1950</td>
<td>1952</td>
</tr>
<tr>
<td>Percent of employees that are Japanese (in Japan)</td>
<td>80%</td>
<td>99%</td>
<td>95%</td>
</tr>
</tbody>
</table>

As Table 9-2 below indicates, findings from the case studies suggest foreignness was, indeed, an explicitly recognized component among managers. Similar to the organizations studied in the pilot cases, respondents at the three banks in particular employed foreignness as a classification scheme—organizations, hence, tended to address themselves, as well as their competitors, in terms of their foreignness or domestic identity. Respondents at Japanese banks, for example, referred to “...the foreign banks...” or “...foreign companies...” as a group when talking about their strategies or behaviors on the domestic market. Non-domestic banks similarly grouped local competitors together, addressing them as “...the Japanese banks...” or the “...local banks...”

Interestingly, respondents rarely, if ever, provided other classifications than those based upon foreignness. One might surmise that managers would talk about American banks as opposed to European banks or investment banks versus commercial banks; however, these groupings almost never arose. Moreover, respondents rarely referred to individual competitors; if a specific bank was mentioned at all, it was usually as the quintessential example of that particular group. Foreign bankers said things such as “...Japanese banks like Mizuho...” or “...a Mizuho or an SMBC...” In these cases, the

---

11 IBJ/Mizuho foundation date is that of IBJ: the youngest of the three merged banks; Shinsei foundation is that of the LTCB, its predecessor bank, which is also the official starting date listed in its annual reports.

12 The one exception appears to be megabanks versus regional banks; however, this classification was only applicable to the Japanese banking sector.
specific bank names were utilized as typical examples of larger groups, rather than as references to a particular organization. Japanese respondents similarly talked about "...foreign banks like Goldman Sachs..." or made statements such as "...for example, Citibank or Lehman..." The sentiments expressed were, hence, applied to the overall population of foreign or Japanese banks, with little differentiation within the two groups.

Table 9-2: Use of Foreignness by Respondents

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Position</th>
<th>Quotation</th>
</tr>
</thead>
</table>
| Frank Cavallo       | Head of Global Syndication, Citibank Bank Tokyo | "...the Japanese banks... their approach would be different."
|                     |                                               | "...as a foreign bank you don't hesitate..."                               |
| Stephen Harner      | Former relationship manager, Citibank Nagoya and Tokyo | "...any foreign bank, you had to be a niche player..."                    |
| Shusaku Minoda      | Former Head of Loan Syndication Division, Mizuho Corporate Bank | "...those foreign banks, they way they do things is not always compatible with the Japanese market." |
| Hiroshi Yamamoto    | Head of Loan Syndication Division, Mizuho Corporate Bank | "...in the foreign banks, there are lots of individual players." |

The Permanence of Foreignness

An additional notable feature of the quotations is that the foreignness label was uniformly extended to non-domestic banks, regardless of how long they had been in Japan, their country of origin or the extent of their adaptation to local practices. Respondents in all three case studies classified Citibank as foreign firm; this is despite the fact that: 97 percent of the bank's staff were domestic employees, that the CEO position had often been held by a Japanese national, that Citibank had multiple branch offices throughout the country, and that it had maintained a strong presence in Japan more or less continuously since 1902. As noted in the pilot study, Goldman Sachs was similarly classified as a foreign bank, despite its particular effort to recruit only Japanese speakers and to let them maintain and utilize their Japanese identities. Moreover, this categorization rule was true both of foreign and domestic firm managers.

International organization scholars have suggested foreignness is most pronounced during initial market entry (Zaheer & Mosakowski, 1997). Academics have also argued that as MNEs gain knowledge of
the local environment through learning, adaptation, and increased embeddedness, the effects of foreignness fade (Petersen & Pedersen, 2002; Rosenzweig & Singh, 1991; c.f. Johansson & Vahlne, 1977). The classification scheme used by both domestic and non-domestic firms, however, suggests that, although leaning and local adaptation may reduce the most pronounced cultural clashes and misconceptions when foreign firms engage with local actors, they cannot eliminate foreignness altogether. The notion that foreignness is, to some extent permanent, was initially proposed by Hymer (1960/76); however, this has often been lost in contemporary discussions of globalization, convergence, and the internationalization of markets. Thus, a key insight from the cases is that foreignness is sustained over time, regardless of MNE subsidiary learning and adaptation (as conceptualized in Figure 9-1 below).

**Figure 9-1: The Permanence of Foreignness**

![Figure 9-1: The Permanence of Foreignness](image)

**Foreignness as Self-Classification**

Notably, foreignness was used not only as a way of categorizing external competitors; it was also employed as a way of classifying the respondents' own bank. When discussing their position and strategy in the market, respondents from Citibank said: "...as a foreign bank, you had to have a niche..." or "...foreigners were not a part of that world..."
They did not say that Citibank needed a niche or that Citibank was not a part of the Japanese world. Respondents from IBJ and Mizuho similarly explained their actions in terms of their position “...as a Japanese bank...”

The use of foreignness as a self-classification scheme becomes particularly interesting when applied to so-called new-banks such as Shinsei. As noted in previous chapters, these organizations are owned by foreign investors and have adopted similar overall organizational templates, yet they are headquartered in Japan and legally classified as Japanese entities. A question that initially arose is, therefore, how to classify these organizations.

As the case studies show, Shinsei was classified as Japanese entities - both by itself and others. This is despite the fact that Shinsei respondents also admitted to being different from local Japanese competitors. For example, while Thierry Porté, CEO of Shinsei, firmly stated: “...we are a Japanese bank...” other respondents from Shinsei suggested it was “...more foreign than the Japanese banks and more Japanese than the foreign banks...” As reported in the pilot study, Star Bank, another new-bank, similarly defined itself as firmly planted within the Japanese “financial village”, even though it adopted strategies and actions that one respondent described as akin to “...a foreigner suddenly doing strange things in the center of the village...”

**Foreignness as an Active Component of Decision-Making**

The implications of the above analysis are two-fold: to begin with, the active use of foreignness as a means of classifying organizations suggests managers use this categorization scheme in making sense of and interpreting their external environment. This is particularly evident from responses in the case studies concerning similarities and differences between foreign and domestic firms. Both groups of actors, therefore, acknowledge the differences between the organizations and potentially incorporate these into their actions and decision-making processes.

Secondly, the analysis also suggests that Citibank, Mizuho, and Shinsei can be categorized along a continuum of foreignness, as shown in Figure 9-2. On the one end of the continuum, we find Citibank: the bank not only displays attributes traditionally assigned to the foreign firm (including overseas headquarters, foreign ownership, foreign management, etc); it is also actively classified as foreign, both by itself
and others. On the other extreme, we find IBJ/Mizuho: a thoroughly Japanese firm headquartered in Tokyo, led by a Japanese CEO, etc.

Shinsei’s position, in turn, is somewhat unclear: on the one hand, it is classified as a Japanese bank, both by its CEOs and its peers; on the other, however, it also sees itself as “...more foreign than the Japanese banks, and more Japanese than the foreign banks...” Shinsei is, therefore, categorized as a Japanese bank, but not to the same degree as IBJ/Mizuho or other domestic organizations. As a result, it occupies a position more towards the middle of the spectrum, albeit closer to the non-foreign group than to the foreign grouping.

![Figure 9-2: Continuum of Foreignness](image)

The emergent insight is that managers at the various organizations used foreignness as a way of understanding and interpreting the environment; they applied the concept both to define their own position in the Japanese banking industry, as well as that of competitors.

Given that the three focal organizations differ in their level of foreignness, an important question is to what extent this variation is mirrored in their internal and external organizational characteristics. As noted in Chapter 2, scholars have long argued that foreign firms are set apart from local actors - both in terms of their internal routines, practices and behaviors, as well as their image and reputation in the eyes of local actors. So what then are the internal organizational attributes and external attributions that coincide with foreignness? In what ways are the organizations similar or different? In order to answer this question, the following sections contrast key organizational traits of the three focal organizations, subsequently comparing these with their different degrees of foreignness.

### 9.2 Comparing and Contrasting Internal Attributes

Organizations’ internal routines, behaviors, and practices may differ from each other in any number of ways and on multiple levels - ranging
from the way they hire and train employees and their organizational structure, to their documentation formats and dress codes. Addressing all of these differences, however, is a near impossible task. Building inductively upon the case studies, I identify instead three internal attributes that played key roles in the introduction of loan syndication: attitudes towards innovation, the role of financial metrics and the importance of relationships. Table 9-3 compares the focal organizations across these three attributes.

Table 9-3: Internal Characteristics of the Focal Organizations

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Citibank</th>
<th>IBJ/Mizuho</th>
<th>Shinsei</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation focus</td>
<td>&quot;...we encourage people to try ideas, to inculcate creative opportunism...&quot;</td>
<td>&quot;When somebody comes from the foreign office and tries to invent things, people say 'This is Japan, you cannot bring in [foreign] ways, we have our own way.&quot;</td>
<td>&quot;Shinsei has done what a lot of foreign banks have done, taken ideas and innovations from other markets and brought them to the Japanese market.&quot;</td>
</tr>
<tr>
<td></td>
<td>&quot;[innovation] was institutionalized at us.&quot;</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;We were always bringing in something new...&quot;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Role of financial metrics</td>
<td>&quot;...we didn’t invest in one-offs, you don’t get ROI.&quot;</td>
<td>&quot;...the amount of debt means bigger status...&quot;</td>
<td>&quot;...we were less motivated by 'what do clients want?' and more interested in funding.&quot;</td>
</tr>
<tr>
<td></td>
<td>&quot;[financials] are scientifically managed.&quot;</td>
<td>&quot;...the foreign banks, they just want to make money...&quot;</td>
<td>&quot;...a very economically driven bank...&quot;</td>
</tr>
<tr>
<td></td>
<td>&quot;[we] have a very strict, very rigid process...&quot;</td>
<td></td>
<td>&quot;...it’s a very disciplined approach...&quot;</td>
</tr>
<tr>
<td>Role of relationships</td>
<td>&quot;Relations helped in knocking on the door.&quot;</td>
<td>&quot;It was a requirement for banks to support industry so we adopted close relationships.&quot;</td>
<td>&quot;We have to keep buying admission tickets, which is lending...it’s a balancing act, we don’t want to lose clients but we can’t just continue using our balance sheet for no apparent reason...&quot;</td>
</tr>
<tr>
<td></td>
<td>&quot;...we’re not Gulliver tied down by small pieces of rope...&quot;</td>
<td>&quot;We sat in the same boat, our futures were intertwined.&quot;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&quot;...you wanted to have a good share of wallet but not too much because then you were too important to the client...&quot;</td>
<td>&quot;We cannot say ‘Oh, our limit is full, sorry, please bring it to another bank,’...&quot;</td>
<td></td>
</tr>
</tbody>
</table>

Innovation Focus

As the cases indicate, Citibank put significant emphasis on the importance of innovation; throughout its history, the bank had consistently introduced novel practices and products on the Japanese market, including swaps, derivatives, kagonuke, securitization and not
least of all loan syndication. This focus on innovation is evident not only from the list of actual introductions (see Figure 6-2), but also from the interviewee responses which are riddled with references to innovation, product development and the generation of new ideas. Stephen Harner, the former branch manager at Citibank Nagoya and subsequent Vice President in the Tokyo office, noted for example that “...innovation was institutionalized at us...” while Hollis Hart, a former country manager for Citibank Japan, noted the importance of instilling “...a culture of creativity...encouraging new ideas...”

In contrast to Citibank, mentions of innovations were largely absent in interviewees with IBJ/Mizuho respondents. When innovation did come up, it was often in relation to adapting new products to the local market or, alternatively, as a response to the pressures brought on by the Mizuho merger. As Table 9-3 indicates, innovation from outside was particularly unusual and was treated with significant skepticism. Loan syndication can, of course, be seen as a crucial innovation by IBJ/Mizuho; however, the case study suggests it was an anomaly rather than the rule. The bank hence operated primarily by building upon its position and role in existing markets, as opposed to actively seeking new products and novel innovations.

While respondents at Shinsei did not stress innovation to the same degree as those at Citibank, it nevertheless comprised an important part of the bank’s operations. Not only did the new owners introduce novel management principles, IT systems, and organizational structures (as the CEO stressed), Shinsei actively sought to introduce new ideas and innovations from overseas, similar to those of foreign banks.

The analysis suggests that, while Citibank and Shinsei were actively focused upon innovation and new product development, innovation played a smaller role at IBJ/Mizuho that was primarily focused instead upon expanding and developing existing product markets.

The Role of Financial Metrics

A second important difference between the banks was the role of financial metrics. For example, interviewees at Citibank often referenced accounting ratios and technical jargon when explaining and describing their business practices. For example, new innovations at Citibank were judged not only upon the basis of their applicability to
The Paradox of Foreignness

the local market; they were also judged on the extent to which they would provide sufficient “return on R&D”, as Hollis Hart noted. Loan syndication, as well as other innovations, was viewed as an “...additional revenue stream...” and used primarily because it was “...economically rich...”

The focus upon financial metrics was especially prevalent in Citibank’s loan syndication processes. Hurdle rates and maximum hold levels on balance sheets were the primary decision-making metrics in what respondents characterized as a “strict process”. The importance of financial metrics over other factors in decision-making is also demonstrated by the fact that the bank was willing to back away from transactions if these were non-compliant with internal metric guidelines.

If respondents at Citi couched their language and explanations in terms of financial ratios and profitability, these aspects featured much less prominently in interviews with IBJ/Mizuho bankers. Loan syndication was rarely described in terms of its ability to increase profitability but rather as a way of ensuring the survival of the bank and servicing customers. While IBJ/Mizuho had hurdle rates, none of the respondent referenced these directly when explaining loan syndication processes at the bank. Although portfolio management was addressed several times, it was primarily in relation to the bank’s problems during the 1990s, rather than as a current guiding principle. At the time of the interviews, Mizuho did have a loan portfolio management department, yet it was limited to an advisory role. At Citibank, by contrast, the loan portfolio management department had the power to veto lending transactions.

Similarly, profitability was rarely a central topic of discussion during interviews with IBJ/Mizuho bankers; as with the case of loan portfolio management, the subject surfaced mainly in describing the difficulties of the bank during the 1990s and the need for changing the underlying lending system. Interestingly, one area in which aspects of profitability regularly occurred during discussion with IBJ/Mizuho bankers was in relation to foreign firms and their perceived singular focus on economic return. Several respondents emphasized the focus on profitability as a core difference between foreign and Japanese bankers, with one banker suggesting that: “...profits is all the foreign banks care about...”

In line with this, respondents at Shinsei emphasized the importance of focusing on financial metrics and returns as a way of
improving the balance sheet and earnings of the organization. Respondents described the bank as “...a very economically-oriented place...” and noted that the primary motivation for doing loan syndication was not so much serving customer needs as it was finding ways to “...leverage assets on our balance sheets...”

The Role of Relationships

A third attribute setting the banks apart from each other was the role of relationships in internal decision-making processes and behaviors. As noted earlier, relationships are crucial in developing successful loan syndications. Citibank enjoyed several relationships with large blue chip companies thanks to its long history in Japan and its relatively large size. While these ties were crucial for the banks operations and survival in Japan, respondents also emphasized that they never took precedence over financial metrics when making decisions. As noted earlier, Citibank was willing to withdraw from transactions that did not meet its internal hurdle rate and other financial metrics, even when these were conducted with long-stand clients.

While relationships were important for Citibank, they were not allowed to dictate final business decisions made by the bank. Bankers at Citibank also noted the potential negative aspects of relationships, pointing in particular to their constricting effects. As the quotes in Table 9-4 indicate, Citibank sought to limit its “share of the wallet” in order to avoid being “Gulliver, tied down by lots of small pieces of rope.” Bankers suggested that this approach to relationships was a crucial difference with Japanese banks who would often “get into situations they shouldn’t be in because of their relationships,” as one banker noted.

In contrast, relationships were greatly emphasized by IBJ/Mizuho. While Citibank valued relationships as a way of getting in the door and meeting potential customers, IBJ/Mizuho bankers viewed relationships as the core asset of the bank and the basis of their competitive advantage. For example, it is telling that even after the main bank system had been largely discredited, the Japanese bank characterized the new lending system as the “core bank system”; the use of “core” rather than “main” here suggests the continued value of relationships. As one banker noted: “...we have no interest in doing away with our relationships, and even if we wanted to, we couldn’t...”
Hence, relationships continued to constitute an important part of banks’ “...public obligation...” - to use one respondents phrase.

In terms of both innovation and the internal focus upon financial metrics, Shinsei exhibited attributes similar to those of Citibank. In terms of their perspective on relationships, however, the banks appear to occupy more of a middle ground between the two banks. On the one hand, Shinsei’s willingness to cut off traditional lenders suggests that like Citibank, it would not prioritize relationships over earnings and profitability. On the other hand, Shinsei also put great emphasis on maintaining existing relationships, both with borrowers and lenders such as the regional banks. At times, the bank also strayed from its strict focus upon financial metrics in order to buy “...entry tickets...” in the form of lending, thereby sustaining existing relationships. It is noteworthy that in this sense, Shinsei differed somewhat from Citibank in its internal practices; this was despite the fact that the bank was populated by several former Citibank managers, and that it sought to conduct business based upon the same financial metrics as the U.S. organization.

9.3 Comparing and Contrasting External Attributions

As noted in the theory chapter, foreignness impacts not only the internal organizational routines, practices, and logics of an organization; it also affects its external image and standing. In Section 10.1 above we have seen that managers both at domestic and non-domestic banks indeed categorized and classified firms according to foreignness. An important area of inquiry is then what specific expectations and assumptions were attached to these classification schemes. In particular, how were Citibank, IBJ/Mizuho and Shinsei viewed, both by their competitors and customers? Table 9-4 below arrays findings from the empirical case studies concerning these factors. As the table indicates, the banks did indeed faced considerably different expectations and assumptions both in terms of specific products, as well as their overall behavior and actions on the local market.
Table 9-4: External Attributions and Image of the Focal Organizations

<table>
<thead>
<tr>
<th>Product</th>
<th>Citibank</th>
<th>IBJ/Mizuho</th>
<th>Shinsei</th>
</tr>
</thead>
<tbody>
<tr>
<td>...foreign banks were expected to show more interesting products...</td>
<td>“[Customers] said ‘Why don’t you just lend us money like you’ve always done...’”</td>
<td>“...they expect us to provide solutions which megabanks cannot provide...”</td>
<td></td>
</tr>
<tr>
<td>...go to foreign banks for sexy products...</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>“Customers are ok with us not taking traditional roles, that’s not what they’re looking for from Citi.”</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>“As a foreign organization, you don’t hesitate to propose things...”</td>
<td>“Japanese banks must build the infrastructure and develop the market because they are Japanese banks.”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“We could solve problems in ways Japanese banks couldn’t: we were outside the system but still respectable and viable.”</td>
<td>“It was kind of a post-war requirement to support industry.”</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Product Image:

The previous section highlighted the internal focus upon innovation at Citibank, as compared to the relative lack of emphasis on this aspect at Mizuho. It is perhaps not surprising that this internal attribute is mirrored in external perceptions and expectations on the banks’ products. As noted in the case study, foreign bank product were seen as “sexy” and expected to be more innovative and interesting than local offerings. In line with this, one respondent at Citibank noted the organization “…wanted and needed to be seen as value added…” (i.e. as the bank customers called when they needed help with a unique problem or challenge).

In contrast to Citibank, IBJ/Mizuho’s product offerings were expected to maintain traditional formats. In particular, IBJ/Mizuho was seen as offering reliable and standardized financial services that were well-known and recognized throughout the industry. Sudden and radical innovations, especially in new areas, were not necessarily rewarded by IBJ/Mizuho clients. As a result, the bank was seen as a second-stage adopter of new products, often following the foreign banks into new areas. Indeed, IBJ/Mizuho subsequently adopted a number of new products initially introduced by foreign banks, including swaps, derivatives, securitization, and loan syndication. The notion is also supported by the earlier quote from the IBJ/Mizuho banker regarding the role of foreign banks in introducing new products,
as well as by comments from bankers at Citi and other foreign institutions, who noted that Japanese banks were followers, benchmarking the non-domestic firms’ activities.

Like the case of Citibank, external expectations on IBJ/Mizuho’s products thus corresponded with the bank’s internal processes and routines, specifically in terms of its focus upon expanding and maintaining existing market segments. In the same way, Shinsei’s focus upon innovation also corresponds to customer expectations of innovative products and solutions unavailable from the larger domestic financial institutions. While clients regarded Shinsei as a Japanese entity, they expected the bank to offer solutions that were innovative to a much greater degree than those of IBJ/Mizuho.

Organizational Image

Local actor perceptions are not just limited to actual products and services; they also apply to the organization itself, including expectations of behaviors, actions, and strategies. The case studies and the quotes in Table 9-4 imply that the three banks faced considerably different expectations and perceptions in this regard. To begin with, local actors took for granted that Citibank would act as innovator and pioneer, introducing novel services and practices that Japanese banks “...couldn’t or wouldn’t do...” One IBJ/Mizuho employee noted that the role of foreign banks was “...introducing new things on the market”

Notably, these expectations were more than simple assumptions of innovativeness; they also encompassed a measure of understanding for norm-deviance. Respondents noted that customers had no objection to Citibank ignoring some of the traditional practices and routines heavily institutionalized among Japanese banks. When Citibank refused lending to traditional customers or introduced norm-deviant aspects of loan syndication, clients had little objection.

Put differently, *Citibank faced significantly weaker expectations for conformity and isomorphism than its domestic Japanese counterparts.* Because it was seen as a pioneer and innovative firm, Japanese customers had greater tolerance for Citi’s norm-breaking and institutional deviance.

In turn, Citi actively cultivated this pioneer and innovator image, even to the point of discouraging customers from using the bank for standard borrowing. The bank also actively leveraged its position to its
advantage. As respondents noted, being a foreign bank meant the organization could propose certain products or practices that Japanese banks avoided; it also allowed the bank to avoid being pressured in granting extensions of loans. Notably, a position of being "outside the system, but still respected and viable" meant Citibank could offer solutions to political problems in ways that Japanese banks, heavily embedded in the hierarchy of the main bank system, could not.

Significantly, the norm-breaking image of Citibank was emphasized not only by its own bankers, but also by employees at IBJ/Mizuho. As one manager noted, customers willing to entertain ideas of loan syndication from foreign banks simultaneously insisted that Mizuho refrain from offering similar services and just "...keep doing the same lending you always have..." In contrast to Citi, IBJ/Mizuho was expected to maintain conformity with existing practices and standards. Based upon the long history of the main bank system and its deeply institutionalized norms and assumptions, clients had built up a specific image of IBJ/Mizuho and its role in the local market. Respondents in the case noted that there was a "...public requirement to support industries..." The expectation on the part of IBJ/Mizuho was that it would, therefore, maintain and grow existing markets, as opposed to innovate new areas.

At the same time, IBJ/Mizuho was by no means a laggard in the industry; the bank often ranked highly in customer satisfaction surveys and was regularly used as a benchmark in articles and studies on developments in the financial system. The difference, however, was that these expectations and evaluations were focused upon IBJ/Mizuho's role in established and mature markets. Hence, IBJ/Mizuho was viewed as the market leader not in terms of being first to introduce a product, but in terms of dominating and setting the tone for the product as it became established and standardized. If clients called Citi when they had unique problems, IBJ/Mizuho was the institution of choice to solve daily and recurrent issues - primarily because the bank was seen as trustworthy, safe, and reliable, and because it had the necessary resources, skills, and relationships to provide many of these services. Foreign banks themselves acknowledged this, suggesting that in established markets, IBJ/Mizuho and other domestic banks were "...very good at what they do..." and, thus, extremely competitive in these areas.

If Citibank was seen as the innovator while Mizuho was expected to be the market leader, Shinsei again appears to occupy a differentiated
The Paradox of Foreignness

and middle position. As noted above, Shinsei was, on the one hand, expected to introduce innovations that differed from those of the major domestic banks. At the same time, however, the bank was also viewed as a Japanese organization; as a result, there was a limit in terms of how innovative the new offerings were allowed to be.

As noted in the case, Shinsei faced severe criticism when it initially tried to cut off traditional lenders, forcing the bank to eventually back away from this strategy. It is interesting to note that Citibank, by contrast, was able to "...whittle down borrowers..." as one respondent noted; in other words, Citibank could cut off lending to clients without the same level of backlashes from the public, politicians, and the media. Similarly, Star Bank (another of the new-banks) faced considerable negative reaction when it introduced zero-fee ATMs, despite the fact that Citibank had done the same with little opposition many years earlier.

In addition, even as clients came to expect innovations from Shinsei, they also continued to view the bank as a domestic entity and, hence, demanded low-interest rate loans and other services that were characteristic of other Japanese organizations. Although the bank did not face as severe pressures for conformity as the likes of Mizuho, it nevertheless was forced to live up to these when they did present themselves.

As a result, Shinsei was perceived as an innovator, but within limits. New products and novel solutions were expected, but only if they operated within the confines of the norms and traditions of the Japanese banking system. Consequently, many of the new banks sought to "...fly under the radar..." of both foreign and domestic banks, seeking out smaller niche clients, such as consumer finance companies, that would "...borrow from anyone..." and, hence, apply less stringent expectations upon the bank.

9.4 Linking Foreignness, Attributes and Attributions

Taken together, the above analysis suggests the three banks differed along both internal attributes and external attributions. Internally, the primary differences were in innovation and the role of financial metrics versus relationships. Citibank emphasized innovation and new product development, placing comparatively greater emphasis on financial metrics than relationships. IBJ/Mizuho can very much be
seen as the opposite: the organization focused on maintaining and expanding existing products and services and gave far greater weight to relationships as opposed to financial metrics. In turn, Shinsei was similar to Citibank in terms of its focus upon innovation and financial metrics, yet this was also tempered by a greater emphasis upon relationships than Citibank.

These differences were mirrored in their external attributions: Citibank was seen as a pioneer and innovator, offering novel products and services. As part of this image, the organization was also granted greater license to deviate from existing norms and requirements. Conversely, IBJ/Mizuho was expected to comply with existing norms and standards of the main bank system; this meant not only steadily offering existing products and services, but also taking a role in stabilizing and building existing markets. While Citibank was a product innovator, IBJ/Mizuho was seen as a market innovator. Shinsei Bank was, therefore, expected to offer innovative products; unlike Citibank, however, the organization was constrained by its image as a Japanese bank. Shinsei was, hence, granted less leeway to break from existing traditions and norms in comparison to Citi.

Table 9-5 contrasts the individual organizations’ attributes and attributions with their degrees of foreignness. The table allows us to draw some preliminary insights as to the organizational traits and roles that accompany foreignness.

Table 9-5: Summary of Internal Attributes

<table>
<thead>
<tr>
<th>Degree of Foreignness</th>
<th>Citibank</th>
<th>IBJ/Mizuho</th>
<th>Shinsei</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Attributes</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>Innovation focused emphasis upon financial metrics over relationships</td>
<td>Focus upon expanding existing markets, emphasis upon relationships over financial metrics</td>
<td>Focus upon innovation and financial metrics; tempered by importance of maintaining existing relationships</td>
</tr>
<tr>
<td>Low-Medium</td>
<td>Focus upon innovation and financial metrics; tempered by importance of maintaining existing relationships</td>
<td>Expectations of market leadership and product stability; strong pressures for institutional isomorphism and conformity</td>
<td>Expectations of innovative products tempered by intermediate pressures for isomorphism</td>
</tr>
</tbody>
</table>

As the table clearly indicates, the internal and external traits of the organizations vary with their foreignness; this is especially the case
when comparing Citibank and Mizuho. As a foreign bank, Citibank had a strong internal emphasis on innovation and emphasized adherence to financial metrics over relationships. Externally, the bank was also known as not only a pioneer and innovator; it also was seen as a norm-breaker. It is important to note here that actors not only accepted Citibank’s deviation from standardized practices, they also actively expected it; in other words, external actors naturally assumed that Citibank would promote practices, products, and innovations that differed from domestic banks.

As a heavily embedded domestic bank, IBJ/Mizuho meanwhile exhibited little internal focus upon innovation and emphasized relationships over financial metrics. In contrast to Citibank’s innovator image, IBJ/Mizuho was also perceived as a market leader and standard setter, occupying a guiding position in established market segments, but with little activity in promoting new groundbreaking innovations. IBJ/Mizuho, hence, faced strong pressures for maintaining the existing system; the most striking example of this was the fact that some clients asked the bank to maintain its old lending practices, even as they approached Citibank for loan syndication deals.

From this comparison, it would appear that foreignness lead to differences in both internal and external practices: internally, it resulted in a focus upon innovation and greater emphasis upon financial metrics, as opposed to relationships; externally, it resulted in an image as innovator and norm-breaker, essentially granting Citibank leeway to challenge existing institutionalized practices without fear of large-scale sanctions. A preliminary linkage between foreignness, internal attributes and external attributions can hence be described as shown in Figure 9-3 below.

Interviews with other banks and findings from the pilot study support these insights. For example, the foreign and Japanese life insurers discussed in the Chapter 3’s pilot studies operated upon significantly different internal organizational assumptions and practices. The former followed “…strict internal economic guidelines…” The latter questioned the value of being a stockholding company and emphasized its role as purveyor of safe insurance products for the public good. In terms of external acceptance of deviance, foreign managers noted that: “as a foreign bank you don’t feel constrained by local business practices…” Another suggested that, as a foreigner, you can “…be obtuse and make demands…”
Differential Effects of Foreignness upon Attributes and Attributions

The linkage between foreignness and various organizational traits gains further depth when we include the findings from Shinsei in the analysis. In both internal attributes and external attributions, Shinsei embodies characteristics of both Citibank and Mizuho, thereby, occupying a kind of middle ground. Its exact position, however, differs between attributes and attributions. Shinsei’s internal attributes were more similar to those of Citibank, despite its categorization as a Japanese bank. Externally, however, Shinsei exhibited attributions that were significantly closer to those of Mizuho.

Moreover, this pattern recurred in the other new banks: Aozora and Star Bank; both organizations tended to place strong emphasis upon financial metrics and models in line with Citibank, yet both also faced expectations and assumptions in line with Mizuho. This is particularly evident from the negative reactions Star Bank faced in launching its zero-fee ATM system, as described in the pilot study.

These findings suggest foreignness differs in its influence upon internal and external organizational traits. As a Japanese organization, Shinsei was still able to adopt many of the internal practices characterizing Citibank and other foreign entrants. Externally, however, Shinsei’s domestic identity bound the organization more closely to the attributions assigned to Mizuho and Japanese organizations; despite having the skills and capability for offering innovative products (thanks to significant staffing by former Citibank and
The Paradox of Foreignness

other foreign firm managers), Shinsei was still forced to adhere to the expectations and assumptions that applied to domestic organization. Foreignness, therefore, appears to be a greater source of differentiation in terms of external image than in terms of internal routines and practices.

This point is reiterated when we consider that the one internal attribute where Shinsei differed from Citibank was in its attitude towards relationships; as noted above, Shinsei at times let historical relationships take precedence over its espoused focus upon financial metrics; this is in stark contrast to Citibank which always prioritized internal accounting and financial guidelines. Given that relationships are ties to the external environment, this effect is closely related to the fact that the bank was perceived as a Japanese entity, rather than as a foreign organization.

This insight is critical because it lends credence to the idea that foreignness defines not only what an organization is able to do (in terms of its internal practices and routines); it also significantly defines what it is allowed to do. As suggested in the theory discussion in Chapter 2, both of these aspects are crucial for an organization’s ability to take action in the institutional environment. Figure 9-4 updates the previous model to reflect this insight; the thicker black line indicates the relatively stronger linkage between foreignness and external attributions, as opposed to internal attributes.

Figure 9-4: Differential Effects of Foreignness on Attributes and Attributions

```
Foreignness

Internal focus upon innovation, emphasis on financial ratios over relationships

External image as innovator and norm-breaker
```
9.5 Causal Mechanisms of Foreignness and Organizational Traits

While the analysis of the previous section offers an initial linkage between foreignness, internal attributes and external attributions, it still leaves many questions unanswered. The most important of these concerns processes and mechanisms. In other words: if foreignness does, indeed, lead to specific internal and external traits, why and how does this occur? Outlining these processes is particularly crucial in order to investigate causal effects between foreignness and organizational attributes and attributions. A second question is whether the findings are only applicable to the specific case under investigation or can they be extended more broadly? What other factors might also contribute to the relationships? In order to address these questions, the following section takes a closer look at the mechanisms that link foreignness, internal attributes, and external attributions.

Foreignness and Innovation: Emphasizing Unique Products

To begin with, Citibank's central emphasis upon innovation can clearly be seen as a result of its foreignness. As extant research on the liability of foreignness predicts, Citibank faced significant barriers in competing with domestic actors on established markets; notably, these barriers were caused by headquarter effects (in the form of stringent demands upon pricing and return on assets), the subsidiary's lack of embeddedness in the main bank system, and domestic firms' subsequent unwillingness to work with an unknown outsider. To overcome these liabilities of foreignness, Citibank adopted a differentiation strategy, focusing upon underdeveloped and new product markets where it had a competitive edge over domestic incumbents. From this perspective, the internal focus upon new product innovation was centrally driven, in large part, by the negative effects of being foreign.

Innovation can, of course, occur without being foreign; for example, Citibank has pioneered a number of new products in its home market of the United States, including both loan syndication and the closely related securitization function. A crucial difference, however, between the home country organization and Citibank Japan was that the latter depended upon innovations for its very survival in the market. As noted by Hollis Hart, a former country manager at Citibank in the 1980s, management sought to instill a culture of creativity precisely because it faced such significant challenges competing for customers.
The Paradox of Foreignness

Because it was shut out from established market segments, innovation became a core mantra in the Japan office, repeated over and again in interviews. Citibank in the United States, by contrast, relies not only upon new product innovation, but also on its dominant position in many well-established and mature market segments.

Previous research on MNE competitive advantage suggests Citibank Japan would rely upon its firm-specific experience and capabilities to innovate in existing markets, developing more efficient or superior version of established products to overcome the liabilities of foreignness (Hennart, 1982; Nachum, 2003; Zaheer, 1995). The preceding analysis suggests however that the bank focused not only on more efficient or superior offerings but specifically upon unique products, things Japanese banks “couldn’t or wouldn’t do”.

This specific product strategy can in turn be seen as a direct result of the bank’s foreignness. In particular, local clients needed an excuse in order to break from their traditional domestic relationships and work with the foreign bank; while lower prices and greater efficiency were enticing, they were often not enough of a motivation to challenge existing main bank relationships. For example, Citibank had difficulty selling loan syndication during the first six months, despite offering competitive prices. It was not until domestic companies came to understand the unique traits and properties of loan syndication that the new service began to garner greater attention.

While previous scholarship has suggested MNE subsidiary innovation is often driven by transfers of specific capabilities, assets and knowledge in order to counter the effects of foreignness, the above findings suggest by contrast that the internal emphasis on innovation was one of these effects. Despite having the capabilities, knowledge and skill to compete in existing product markets, Citibank chose to focus on unique innovations specifically because of the internal and external implications of its foreign position.

The notion that Citibank’s innovation focus arose as a direct result of foreignness rather than firm-specific skills is further exemplified by the case of IBJ/Mizuho and other Japanese banks. Although these organizations had extensive experience, knowledge and skills thanks to their multinational operations, they also enjoyed significant historical ties and relationships to local customers. As a result, they faced far less pressure to innovate in completely new product areas, opting instead for maintaining a primary focus on pre-existing markets. In this sense, IBJ/Mizuho was very much like Citibank’s own head-
quarter operations in the United States; because neither faced the effects of foreignness they both put relatively less emphasis on innovation than Citibank Japan.

Foreignness and Financial Metrics: The Role of Home Country Effects?

Citibank's internal organizational attributes were characterized by a strong focus on innovation, as well as an emphasis on financial metrics in its decision-making (as opposed to historical relationships). This trait particularly contrasts the priority IBJ/Mizuho put upon relational networks, as well as Shinsei's willingness to honor historical ties even when these ran counter to underlying financial fundamentals.

A central question is: were these differences a direct result of foreignness? One might argue that the emphasis upon financial metrics was, instead, an inheritance from the home-country market. This would be an especially salient point in the case of Citibank as scholars have often characterized the United States, and particularly the financial services industry, as purely profit-seeking and economically motivated; they have in particular made this point in comparison to "stakeholder capitalist systems", such as Japan and Germany (see Dore, 2000). As a U.S. firm operating in Japan, it would then seem obvious that Citibank's strict economic rationality was a transplant from the home market, rather than a result of its foreign position in the local market.

I do not take issue with this point; as with any financial institution, Citibank was ultimately concerned with adhering to prudent measures of returns and heightening profitability, regardless of whether it operated in its home market or a host country. As noted earlier, requirements from the home country also maintained these pressures upon the firm, even when local practices differed.

At the same time, however, a number of scholars have shown that the primacy of financial metrics and hard economic calculations are often tempered by social embeddedness, even in the United States. For example, Uzzi (1999) explicates how social embeddedness and deep relationships lead to lower interest rates for long-standing customers in the U.S. corporate lending industry. This would suggest that even in the ultra-competitive U.S. financial market, banks were willing to forego hard financial criteria in order to service historical relationships.

Several respondents in the case noted that this was, indeed, the case for Citibank in the United States; one former employee said that
Citi probably went further in supporting large traditional customers in its home market than what was perhaps economically justifiable. Another noted that while the Japanese banks often got themselves into disadvantageous positions because of their deep relationships with clients, "...we probably do the same things in the United States..."

The notion that Citibank's focus upon financial metrics is driven solely by home market effects is also uncertain when considering the fact that Shinsei, a bank based in Japan, espoused a similar strict focus upon underlying financials and ratios. Moreover, we should remember that IBJ/Mizuho and other Japanese banks were heavily involved in international markets where they too were exposed to financial metrics and accounting practices. It would appear then that Citibank's focus upon financial metrics cannot be explained simply by referencing home market effects or international experience.

**Foreignness and Financial Metrics: Tipping the Balance Between Technical and Institutional Requirements**

An important point that emerges from the previous discussion is that the focus upon financial metrics and relationships are not mutually exclusive, but exist together. Citibank in the U.S. gave consideration to both financial metrics and existing relationships when making business decisions. Both of these elements were also prevalent within Japanese banks; indeed, the very reason IBJ/Mizuho and other Japanese banks introduced loan syndication was to shore up their balance sheets and to try and introduce stricter measures of risk, pricing and profitability. As noted earlier, Shinsei was particularly concerned with meeting its internal financial guidelines, including both hurdle rates and maximum lending holds.

From a theoretical perspective, financial metrics can be seen as market-based technical requirements imposed upon the organization. Embedded relationships, on the other hand, embody non-market pressures, conveying and reinforcing institutionalized norms, values, and behaviors. Powell (1991) suggests these technical and institutional requirements are not dichotomous or mutually exclusive; rather, they span a continuum. Firms must therefore balance both of these requirements in their daily routines and activities (Deephouse 1999).

From this perspective, the interesting question is: *why did the balance between technical and institutional requirements differ among the three banks?* In other words, why did Citibank give comparatively
greater emphasis to financial metrics over relationships, as compared to IBJ/Mizuho and Shinsei? This question is of particular interest when we consider that Citibank did, in fact, relax its focus upon financial metrics when dealing with clients in its home market, as previously noted.

In his analysis of social relations and financing, Uzzi (1999) finds embeddedness builds trust and reciprocity between partners. This, in particular, shifts the profit-focus from short-term profitability to a longer-term view of co-operation and opportunities beneficial to both parties. The cases show these types of opportunities were particularly important motivations for both IBJ/Mizuho and Shinsei; as domestic Japanese banks operating in their home market, both organizations were sensitive to their long-term position and based their strategies upon maintaining existing relationships. One respondent at Shinsei noted that the bank was “...long [i.e. permanently based in] Japan, so we don’t need to be as aggressive...” IBJ/Mizuho bankers explained that, as a Japanese bank, it “...couldn’t just pull out and leave...” and that its competitive advantage rested centrally upon its numerous relationships.

Conversely, Citibank Japan’s embeddedness and relationships to customers were much more tenuous. While Citi tried to become a relationship bank and enjoyed a significant network of relational ties, these were not as deep and long-standing as those enjoyed by its Japanese competitors. As a result, offering reduced pricing or favorable interest rates in a particular deal would not necessarily lead to greater loyalty and future profits, since customers often reverted back to their more embedded and long-standing relationships with main house banks. In other words, Citibank’s foreignness and comparatively weaker level of embeddedness reduced the economic return to complying with institutional requirements. Hence, there was little incentive to prioritize relationships over financial metrics and adopt local norms and behaviors due to the lack of reciprocity from clients. In contrast, both IBJ/Mizuho and Shinsei had significant economic incentives to maintain relationships by complying with established norms.

Foreignness and the resulting lack of embeddedness, therefore, had a direct influence upon the internal organizational routines by tilting the balance between technical and institutional requirements in favor of the former. Because it was less embedded in the local banking system and lacked the deep cultural and historical relationships of its
domestic rivals, Citibank had few incentives to focus upon building and sustaining traditional relationships. As a result, it focused upon hard numbers and economic incentives as the underlying decision mechanisms in its business dealings.

Notably, Citibank did this to an even greater degree in Japan than it did in its home market. Several respondents indicated that its operations in the United States benefitted from reducing rates on immediate transactions in order to maintain long-term relationships. One Citi manager with experience both from Citibank Japan and the New York head office pointed out that because Citibank in the U.S. offered a wide range of products and services to preferred customers, lowered interest rates on a single loan would often be recouped in the long run through alternative revenue streams - including M&A advisory or asset management. As a deeply embedded bank with strong relationships to loyal customers, Citibank in the U.S. had an incentive to respond to these pressures for accommodation. As a foreign firm in Japan, however, there were few such imperatives.

**Foreignness and the Norm-Breaker Image: a License to Deviate**

As noted, Citibank was seen as a norm-breaker and pioneer, both by domestic competitors and clients. This specifically meant that Citibank faced fewer institutional restraints upon its activities and was granted greater leeway in promoting norm-breaking practices and services.

This pioneer image was, of course, partially a result of the bank's focus upon unique innovations. By constantly introducing new and value-added services, Citibank carved out a niche for itself as the bank specializing in uncommon problems and radical solutions. Customers were, therefore, willing to forego demands for conformity with local banking norms.

At the same time, a focus upon innovative products was not the sole reason for Citibank's image. Note that Shinsei also actively focused upon innovation and unique products, yet its ability to break norms was far more constrained than that of Citibank. This is particularly notable in the case of withdrawing lending from existing customers; while Shinsei was the subject of intense criticism for refusing to bail out Sogo, Citi faced none of the recriminations when "whittling out" unsound or low-return clients. This suggests that foreignness played an important role in setting Citibank apart from local actors.
Citibank’s ability to avoid criticism and punishment for its actions can be partially found in its lack of embeddedness. To begin with, Citibank’s exclusion from the main bank system meant it did not constitute a primary source of financing for Japanese corporations. As a result, withdrawn lending and other form of norm-deviant behavior on the part of Citibank had no major economic effects upon client companies. By contrast, if Mizuho or other Japanese banks were to suddenly withdraw or reduce their lending, this could have dire consequences for individual company financing. As a result, the Japanese banks faced strong pressures for maintaining existing practices. Citibank, however, operated outside the system and was not actively benchmarked by other lenders; from a financial perspective, the bank’s foreignness and subsequent lack of embeddedness meant that borrowers were less sensitive to its norm-deviant actions.

However, the license to deviate was based not only upon economic factors, but also upon expectations and assumptions attached to the foreign firm. As noted, Citibank was never seen as insider on par with domestic banks (though it should be emphasized that this was not for a lack of trying on the part of the bank). While this outsider position of course entailed difficulties in accessing local clients, it also meant Citibank did not face the same pressures for conformity and adherence to local norms as did domestic banks; as one respondent noted, Japanese clients “...totally separated...” their approach to foreign and domestic banks. Japanese competitors similarly ignored foreign banks, assuming their practices and actions were completely different and incompatible with their own. Because foreign banks were not part of the main bank system, domestic actors, hence, had less expectations or demands upon them to adopt local practices.

Moreover, not only did local actors not expect foreign banks to adhere to local practices, they assumed they would actively deviate from them. This point is perhaps most clearly demonstrated in the difficulties domestic actors faced when introducing loan syndication; in some cases, customers discouraged domestic banks from introducing loan syndication as a lending form, even as they actively courted foreign banks for these same services and products. Citibank was, therefore, expected and even encouraged to be a norm-breaker.

Foreignness essentially allowed the bank to operate outside the norms and requirements that defined the local banking industry. As the cases show, this license to deviate was crucially important; both IBJ/Mizuho and Shinsei faced considerable illegitimacy costs and
penalties when they sought to introduce practices that ran counter to the well-established norms of the main bank system. Conversely, Citibank faced few, if any, of these costs when proposing the same practices. In this way, foreignness had a very direct effect on the bank’s image as norm-breaker, as well as the attached expectations and assumptions.

9.6 The Evolution of Foreignness

The organizational traits and mechanisms discussed in the previous sections can now be tied together as shown in Figure 9-5. Internally, the liability of foreignness pushed Citibank to focus upon innovative and unique products, as well as to prioritize technical requirements (i.e. financial metrics) over institutional pressures (i.e. relationships). The introduction of these unique and often normatively deviant products resulted in Citibank being viewed as a pioneer and norm-breaker; from this perspective, foreignness had an indirect impact upon the bank’s image. However, because it resulted in a lack of embeddedness and outsider status in the Japanese financial markets, foreignness also had a direct impact upon perceptions. This position not only reduced the economic costs and penalties of deviating from existing norms and institutionalized behaviors; it also led domestic actors to actively expect norm breaking.

Figure 9-5: Mechanisms and Traits of Foreignness
Chapter 9

Several important points emerge from Figure 9-5. To begin with, foreignness is not only connected to internal and external organizational traits, the three facets are also mutually reinforcing. Citibank's internal focus upon unique products and technical factors, as opposed to social norms, results in norm-deviant innovations. These, in turn, lead to an image as pioneer and norm-breaker, reinforcing initial assumptions that Citibank, as a foreign firm, exists outside the traditional Japanese main bank system. An increased sense of foreignness maintains the lack of embeddedness. This puts further emphasis upon technical factors and unique innovation, as opposed to relationships, and so on. Foreignness, hence, is not only a cause of the internal attributes and external attributions described earlier, it also results from them in an ongoing process of mutual reinforcement.

The Evolutionary Nature of Foreignness

This, in turn, raises a second question: if foreignness and the organizational traits are reinforcing, where exactly does the process begin? Scholars have previously suggested that, while foreignness is most acute during initial market entry, it can gradually be reduced and mitigated through learning and adaptation (Petersen & Pedersen 2002). At the same time, foreignness is never completely eliminated (c.f. Hymer 1960/76; Kostova & Mosakowski 1997); as suggested previously, foreignness instead reaches a stable level, a kind of steady state that continues to impact the MNE subsidiary over the long term (see Figure 9-1).

One interpretation of Figure 9-5 is that this steady state of foreignness emerges through an incremental evolutionary process wherein both the MNE subsidiary and local actors continuously adapt their actions and expectations. For example, Citibank initially faced liabilities of foreignness, leading it to focus upon unique innovations. These innovations highlighted its norm-deviant image, further reinforcing foreignness. As noted, this in turn put even greater emphasis upon unique innovations and the importance of technical factors.

Over time, the internal emphasis upon innovation and technical factors became routine and taken-for-granted within Citibank, leading to a specific set of capabilities and practices attuned to its position on the Japanese market. In particular, these internal skills were adapted to its foreignness and the specific opportunities and threats Citibank
The Paradox of Foreignness

faced as an outsider firm. Local actors' assumptions and perceptions of the bank similarly evolved, over time coming to identify the company as a pioneering organization with novel and unique value-added products. At some point, this continuous process led to the specific internal attributes and attributions that we previously observed. This situation, in which the organizational traits are clearly defined, can be thought of as the permanent level of foreignness described in Figure 9-1.

Foreignness as an Organizational Archetype or Role

As I noted in Chapter 2, scholars have recently begun to recognize the importance of heterogeneity in organizational environments. In particular, researchers have suggested organizations are characterized by different roles, templates, and archetypes (Greenwood & Hinings, 1993; Scott, 2001). These classifications lead not only to differentiated internal practices and routines, but also variation in external expectations and perceptions.

Drawing upon these ideas, the end result of the evolutionary process described above can be thought of as a specific role or archetype for the MNE subsidiary in the host country institutional environment. Scott notes that organizational roles entail "...prescriptions – normative expectations – of what the actors are supposed to do." (1995) From this perspective, foreignness led local audiences to assume and prescribe actions to Citibank that differed considerably from those of host country competitors. Greenwood & Hinings (1993) in turn suggest that archetypes are characterized by particular structures, ideals, and mindsets; Citibank's singular focus upon innovation and its emphasis upon technical factors over relationships can be seen as specific ideals and mindsets that significantly departed from those of its Japanese competitors.

The central point to be made is hence that these external role expectations, internal ideals and organizational mindsets are potentially a direct result of foreignness. In particular, expectations, structures and mindsets develop and evolve over time in response to the specific pressures and social context surrounding foreignness, as shown in Figure 9-5.

It is important to emphasize that the role resulting from foreignness is not akin to a blank check. As Scott's definition suggests, specific roles do have norms and requirements; the crucial point is that they may differ from those of other actors. Citi and others were not free
to do anything just because they were outsiders. Rather, they also had norms, expectations, and boundaries with which to comply, yet these diverged from domestic organizations. To paraphrase DiMaggio & Powell (1983), an iron cage was constructed to fit the MNE subsidiary; the dimensions and boundaries of this cage, however, differed from the cage holding domestic actors.

The institutions and norms that make up the bars of the iron cage not only constrict, they also enable (Westney 1993). The important question is what types of actions are enabled, and constricted, by the differentiated role of foreignness. In the next chapter, I turn to this question by analyzing how foreignness influenced the different banks’ abilities to introduce and sustain loan syndication on the Japanese market.
Chapter 10

The Effects of Foreignness

In the previous chapter, I outline how foreignness leads to a specific set of internal attributes and external attributions at Citibank. The central focus of this study, however, is upon the effects of foreignness - both positive and negative. As a result, I now turn to the dependent variable of the initial research framework (i.e. the introduction of radical norm-breaking action). As I discussed in Chapter 2, radical action can be broken down into segments, specifically involving barriers to action, strategies for overcoming these barriers, and the subsequent end-result. In this chapter, I analyze all three of these facets, emphasizing how foreignness led to specific barriers, both internal and external to the various organizations, the implementation strategies taken to deal with these constraints, and the subsequent results - in terms of initial introduction and subsequent extension of the norm-breaking action. Bringing these various strands together, I offer a process-model of how foreignness impacts the ability of the foreign MNE to break norms in host country institutional environments.

10.1 Barriers to Adoption

As discussed in Chapter 4, loan syndication differed from the traditional main bank system in three important ways. First, syndication brings together multiple banks that jointly fund one underlying customer; in the main bank system, banks built their market dominance and position through bilateral lending, hence, joint lending ran counter to accepted ways of competing and was virtually
unheard of. Secondly, the primary revenue-generating mechanism in loan syndication consists of fees allotted to bookrunners and mandated lead arrangers; revenue in the main bank system was solely interest rate-based, with no extra fees. Finally, effective syndication both enables and relies upon loan trading among financial institutions on a secondary market; this loan trading serves both as a source of extra revenue and as a way of balancing the underlying lending portfolio. Since Japanese banks under the main bank system measured their revenues and status by the amount of loans on their books, loan trading was frowned upon and virtually non-existent during Japan’s post-war era.

Loan syndication was hence not only a product innovation, it also deviated significantly from existing lending practices that were heavily institutionalized and dominant in the Japanese local market. As such, the novel practice constituted a radical norm-breaking action that challenged existing frameworks. Scholars have previously noted that norm-breaking is often opposed by incumbent actors because it may threaten existing structures, positions, and taken-for-granted practices (Leblebici et al., 1991; Palmer & Barber, 2001). An initial point of inquiry is, therefore, to investigate the barriers to adoption and implementation faced by the various organizations in introducing loan syndication.

In both Chapter 2 and in the previous chapter’s analysis of the effects of foreignness, I have explicitly differentiated internal and external effects of foreignness. In line with this, the barriers to adoption can also be separated into internal and external categories. This categorization is done not only for ease of analysis; it also has a theoretical motivation. As noted in the previous chapter, internal and external norms, assumptions, and logics may differ substantially. This was especially evident in the case of Shinsei Bank which exhibited internal attributes in line with those of Citibank yet faced external assumptions and expectations in close proximity to IBJ/Mizuho. While the internal and external are, of course, related, separating them in the analysis provides a clearer picture.

Internal barriers

Table 10-1 presents data from the empirical case studies highlighting the internal barriers to adoption faced by each of the banks. As the table indicates, the locus and form of the barriers differed significantly
The Paradox of Foreignness

among the three organizations. IBJ, for example, faced considerable barriers to adoption, stemming both from relationship managers and upper management that viewed loan syndication as “weird” and “strange”; these organizational members decried the idea of giving away the bank’s loan “treasures” to competitors and feared what this would do to the organization’s status and position in the market.

Citibank also faced internal barriers from relationship managers. As respondents noted, RMs were unsure of the new practice and felt that it would be akin to giving away loans and to rival competitors. In contrast to IBJ/Mizuho, however, this opposition was less forceful; while RMs at Citibank expressed uncertainty and bewilderment at the new practice, there is no evidence that Citibank faced the kind of institutionalized opposition that was prevalent at IBJ. Moreover, Citibank’s loan syndication also had the full support of both New York headquarters and senior bankers on the ground in Tokyo; in fact, the push for developing loan syndication at Citibank Japan originated, to some extent, from these upper managerial echelons.

Table 10.1: Internal Barriers to Adoption

<table>
<thead>
<tr>
<th>Relationship Managers</th>
<th>Citibank</th>
<th>IBJ/Mizuho</th>
<th>Shinsel</th>
</tr>
</thead>
<tbody>
<tr>
<td>“...that we might sell down more than RMs want us to might have been a source of tension.”</td>
<td>“Why do I have to give my loan to somebody else? This is the fruit of my relationship; why give my precious fruit to others...ridiculous.”</td>
<td>“[the RMs] were very happy because at Shinsei we have a strict hurdle rate, so now they could sell the loans to clients better...”</td>
<td></td>
</tr>
<tr>
<td>“...there were mixed feelings; they didn’t understand what it would mean for relationships. Some said: ‘...are we bringing in other banks to our clients?”</td>
<td>“Loans give interest and that’s income, why would we pass onto someone else?”</td>
<td>“Shinsel had a very low profile in the market, [people] said “Shinsei? Shinsei can do loan syndication?”</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Senior Management</th>
<th>Citibank</th>
<th>IBJ/Mizuho</th>
<th>Shinsel</th>
</tr>
</thead>
<tbody>
<tr>
<td>“...we had syndication loans for over 20 years so the idea to do it in Japan was not a problem.”</td>
<td>“[senior management] said: ‘We are the bank: we have to hold all the loans; I really don’t like to sell it; I really don’t like to syndicate it. I really don’t know what you are talking about and I don’t think you can do that.”</td>
<td>“Setting up a new business is always difficult but I had a lot of support from senior management.”</td>
<td></td>
</tr>
</tbody>
</table>
Shinsei, in turn, faced few internal barriers to adopting the practice; in contrast to both Citibank and IBJ/Mizuho, relationship managers at Shinsei were actively supportive of the new practice as it afforded them a way of competing with domestic banks. As with Citibank, Shinsei’s team also had considerable support from upper management. The only major issue facing Shinsei was its lack of recognition in the larger market and the resulting difficulty in hiring staff for the loan syndication team.

External Barriers

The evidence thus suggests IBJ/Mizuho faced considerably greater internal barriers to adoption than both Citibank and Shinsei. Table 10-2 in turn collates data related to external barriers to adoption. Here again, we see considerable differences among the banks. IBJ/Mizuho experienced difficulty convincing both external borrowers and lenders to adopt the practice; borrowers viewed the new practice as a breach of “commitment” while lenders suspected the loans were bad and that the bank was trying to dupe them.

While Citibank also faced external barriers, these resulted primarily from a lack of recognition and understanding on the part of local borrowers; the bank found it challenging to attract Japanese borrowers who failed to see the “logic” behind the new practice. It is notable that while Citibank did face some occasional demands for increasing its overall hold of loans, these demands were “not an issue” for the bank, meaning it took no notice of them. Citibank’s main challenge among lenders was gathering information and building networks with appropriate investors. As noted by Richard Magrann-Wells, founder of Citibank Japan’s loan syndication division, the bank had no previous contacts to guide it; hence, the team simply “started dialing” in the hopes of finding the right people at various banks.

As a Japanese bank, Shinsei faced barriers to entry similar to those of IBJ/Mizuho. Although the market had matured significantly by the time Shinsei set up its own syndicated loan team, the bank still had to contend with the expectations and assumptions of local clients. Borrowers pressured the bank to supply loans at below the hurdle rate, similar to those of Japanese banks. Participants and investors also used Shinsei’s lending as a proxy for the borrower’s underlying riskiness, much as they would for any other Japanese bank arranging
syndications. This, in turn, put pressure upon Shinsei to maintain more of the loans on its books than it wanted to, in order to ensure that the syndication was successful.

Table 10-2: External Barriers to Adoption

<table>
<thead>
<tr>
<th></th>
<th>Citibank</th>
<th>IBJ/Mizuho</th>
<th>Shinsei</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Borrowers</strong></td>
<td>&quot;It was a miserable first 6 months: we were offering great deals, but it was impossible to steal clients from Japanese banks.&quot;</td>
<td>&quot;...the idea of paying fees and, on top of that, asking other banks for money, there was very little understanding for that in Japanese firms.&quot;</td>
<td>&quot;...we are perceived as a Japanese bank, so we are trying to find clients that are a bit more flexible...&quot;</td>
</tr>
<tr>
<td></td>
<td>&quot;Sometimes clients would say: 'Shouldn't you be holding more?' But this was never an issue for us.&quot;</td>
<td>&quot;For customers, taking loans from a financial institution they cannot see is difficult.&quot;</td>
<td>&quot;Shinsei bank is a Japanese bank, and that means you should be willing to lend at [the low] rates that Japanese will do.&quot;</td>
</tr>
<tr>
<td><strong>Investors</strong></td>
<td>&quot;Half the battle was meeting the foreign banks and getting to know the people.&quot;</td>
<td>&quot;There was no mentality around buy loans. Selling loans was there, Japanese banks were big sellers of loans. But not buyers, that was foreign banks.&quot;</td>
<td>&quot;...to arrange a syndication loan, we have to take some part. Otherwise other lenders think the borrower is risky. To successfully complete distribution, even in a small portion, we have to take some [of the debt].&quot;</td>
</tr>
</tbody>
</table>

Normative and Cognitive Institutional Barriers

Taken together, the evidence in Tables 10-1 and 10-2 indicate that the three banks faced a number of barriers to adoption, both internally and externally. A closer examination of the tables also suggests the nature of these barriers also differed. In the case of Citibank, loan syndication was constrained primarily due to a lack of understanding and knowledge about the product. Relationship managers initially opposed the practice because they did not see its linkage to profitability and fees, and could not understand the logic of giving away loans to competitors. Borrowers at first failed to warm up to the practice because they did not view it as a unique or value-added product in the lending market. Both internally and externally,
Citibank's constraints can be understood as cognitive barriers; in other words, loan syndication was opposed primarily on the grounds that actors failed to understand or grasp the underlying logics of the practice.

Similar to Citibank, IBJ/Mizuho also faced significant cognitive barriers to adoption; relationship managers, upper management, borrowers, and lenders all failed to grasp the fundamentals of the new practice. IBJ/Mizuho, however, was also confronted with normative barriers, i.e. constraints relating to the legitimacy and appropriateness of the action. Both relationship managers and upper management opposed loan syndication because they felt it ran counter to existing practices and believed the new lending format would weaken the status of the main bank. In turn, borrowers viewed loan syndication as a breach of traditional commitment, while lenders were suspicious of an activity that they perceived as running counter to taken-for-granted banking strategies.

It is important to emphasize that these normative constraints were not necessarily mitigated by greater knowledge and explanation of loan syndication. In fact, one might argue that the more actors learned about and understood loan syndication, the more they realized its norm-deviance and opposed it on the grounds that it was illegitimate. Shusaku Minoda, for example, recalled his frustration that relationship managers refused to try loan syndication, no matter how many times he explained it, noting that people could not be “...convinced by theory...”

Moreover, in some cases the normative constraints persisted even when specific actors were convinced of the benefits of loan syndication. Recall for example that IBJ had to keep its first loan syndication secret; even though the client understood and appreciated the advantages of syndication, it still saw it as deviation from traditional banking practices and was unwilling to announce the deal publicly. While cognitive barriers can be reduced by spreading information and greater knowledge, this approach does not necessarily reduce normative barriers.

Although both Citibank and IBJ/Mizuho thus faced barriers to introducing loan syndication, the specific nature of these constraints differed significantly, as shown in Table 10-3. While IBJ/Mizuho faced both cognitive and normative barriers to adoption, Citibank only faced the cognitive constraints. As the table also indicates, the contrast between cognitive and normative barriers becomes especially clear
when we consider the case of Shinsei. Shinsei faced little, if any, internal opposition to adopting loan syndication, both in terms of cognitive and normative constraints; both relationship managers and senior management had information of the new practice and were supportive of the initiative.

Externally, however, Shinsei faced barriers in introducing loan syndication, including pressures to lend at discounted rates and to take on more loans on its balance sheet. Notably, these barriers were not cognitive (i.e. grounded in a lack of underlying among clients); by 2005 when Shinsei formally adopted loan syndication, the lending format had become well-known throughout the market. Rather, the constraints Shinsei faced were normative in nature, arising primarily because among external clients: “Shinsei is perceived as a Japanese bank.”

Table 10-3: Cognitive and Normative Barriers to Adoption

<table>
<thead>
<tr>
<th>Internal Barrier</th>
<th>Citibank</th>
<th>IBJ/Mizuho</th>
<th>Shinsei</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>Cognitive</td>
<td>Cognitive and Normative</td>
<td>None</td>
</tr>
<tr>
<td>Uncertainty/lack of understanding among relationship managers</td>
<td>Uncertainty/lack of understanding among RMs; Deviance from main bank role &amp; practice</td>
<td>No opposition</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>External Barrier</th>
<th>Citibank</th>
<th>IBJ/Mizuho</th>
<th>Shinsei</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>Cognitive</td>
<td>Cognitive and Normative</td>
<td>Normative</td>
</tr>
<tr>
<td>Uncertainty/lack of understanding among borrowers; Lack of information about market among investors</td>
<td>Uncertainty/lack of understanding among borrowers; Lack of information about market among investors Deviance from assumptions and expectations of main bank role</td>
<td>Some expectations of traditional lending practices; Assumptions of traditional Japanese lending role (proxy for client risk)</td>
<td></td>
</tr>
</tbody>
</table>

Foreignness and Differences in Adoption Barriers

Given the fact that the three banks faced different barriers to adoption, why did these arise? In particular, what role did foreignness have in perpetuating these differences? In the preceding chapter, I suggest foreignness leads to particular internal attributes and external attributions; to investigate whether foreignness had a direct effect upon differences in cognitive and normative barriers, Table 10-4 compares these barriers with the attributes and attributions of each organization.
Table 10-4: Organizational Traits and Barriers to Adoption

<table>
<thead>
<tr>
<th></th>
<th>Citibank</th>
<th>IBJ/Mizuho</th>
<th>Shinsei</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal attributes</strong></td>
<td>Innovation focused; emphasis upon existing markets over financial metrics</td>
<td>Focus upon expanding emphasis upon relationships over financial metrics</td>
<td>Focus upon innovation and financial metrics; maintaining relationships important</td>
</tr>
<tr>
<td><strong>Internal barriers to adoption (Barrier Type)</strong></td>
<td>Uncertainty/lack of understanding among relationship managers (Cognitive)</td>
<td>Uncertainty/lack of understanding among RMs; Deviance from main bank role &amp; practice (Cognitive and Normative)</td>
<td>No opposition</td>
</tr>
<tr>
<td><strong>External attributions</strong></td>
<td>Expectations of innovative products; license to deviate from existing norms</td>
<td>Expectations of market leadership and product stability; strong pressures for isomorphism</td>
<td>Expectations of innovative products; some pressure for isomorphism</td>
</tr>
<tr>
<td><strong>External barriers to adoption (Barrier type)</strong></td>
<td>Borrower lack of understanding/uncertainty Lack of information about market among investors (Cognitive)</td>
<td>Borrower &amp; investor lack of understanding/uncertainty Deviance from assumptions and expectations associated with main bank role (Cognitive and Normative)</td>
<td>Some expectations of traditional lending practices; Assumptions of traditional lending role (Normative)</td>
</tr>
</tbody>
</table>

To begin with, the table indicates that both IBJ/Mizuho and Citibank faced cognitive barriers, regardless of their internal attributes and external attributions. Cognitive barriers arose due to the general lack of knowledge about loan syndication on the market in the late 1990s, when both Citi and IBJ/Mizuho sought to introduce the new practice. Cognitive differences, hence, do not appear to be directly related to foreignness. This point is further emphasized by the case of Shinsei. When the bank introduced loan syndication in 2005, the lending format was already established, internally as well as externally. As a result, Shinsei faced none of the difficulties in educating and explaining loan syndication that arose for both Citibank and IBJ/Mizuho.

---

13 An important point to emphasize is that the existence of internal cognitive barriers at both Citibank and Mizuho suggests that neither of the firms had any distinct advantage in terms of in-house knowledge and skills of loan syndication. As I noted in the research design chapter, loan syndication was chosen as the subject of this study because both domestic and foreign firms had experienced the practice in international markets; as a result I sought to control for firm-specific skills or capabilities in explaining different processes of introduction and adoption. The fact that both IBJ/Mizuho and Citibank faced cognitive barriers strengthens this argument.
By contrast, the table suggests normative barriers do vary by levels of foreignness. As a centrally embedded domestic bank, IBJ/Mizuho’s internal routines and practices were heavily oriented towards preserving existing norms and institutionalized relationships, as opposed to focusing on purely technical factors (i.e. financial metrics). Because of this, the bank and its employees were permeated by the norms and institutionalized practices of the main bank system. Because loan syndication significantly defied these practices, the new practice also met with considerable normative opposition, on multiple levels.

As noted in the previous chapter, Citibank’s internal routines and practices were tilted towards technical factors, as opposed to institutionalized norms. Once the technical benefits of loan syndication became apparent to relationship managers, for example, the new service quickly gained internal legitimacy and acceptance; the fact that loan syndication diverged from the Japanese main bank system’s norms and behaviors was of little consequence to the bank’s employees. Because foreignness led to an emphasis on technical factors over institutionalized practices, it also resulted in less internal normative barriers to adoption.

The difference between the two banks can also be seen externally. IBJ/Mizuho’s internal responsiveness to institutional pressures was mirrored in its external image as a traditional main bank; customers hence had strong expectations and assumptions that IBJ/Mizuho would maintain its “...commitment...” As a result, they reacted negatively when the bank appeared to abscond from these commitments by introducing a practice that diverged significantly from existing norms.

Conversely, Citibank was seen as pioneer and norm-breaker, with few expectations of conformity and isomorphism. As noted in the previous chapter, clients to some extent even encouraged norm-breaking on the part of Citi. As a result, they put up little resistance to its introduction of the norm-deviant practice.

The crucial insight that emerges here is that the internal attributes and external attributions of foreignness served to mitigate barriers to adoption. Because of its internal focus on technical factors and external image as innovator, Citibank faced few normative constraints on its action. Foreignness hence buffered Citibank from pressures of isomorphism, thereby, limiting negative responses to norm-deviance. By contrast, IBJ/Mizuho’s domestic position resulted in significant
Chapter 10

pressure for isomorphism, both internally and externally; as a result, its deviance from institutionalized norms was met with considerable opposition.

Interestingly, these buffering effects of foreignness appear to be especially crucial in terms of external normative constraints. As bankers at both Citibank and IBJ/Mizuho noted, domestic actors perceived and evaluated foreign and domestic banks completely differently; in the case of loan syndication this even led to the situation where customers were willing to entertain offerings of loan syndication from Citibank, but insisted that IBJ/Mizuho continue its bilateral lending approach. The importance of external normative barriers is furthermore illustrated by the Shinsei case. Despite being a domestic organization, Shinsei faced no internal normative constraints in introducing the practices – this is unsurprising since the bank's internal attributes were closely aligned with those of Citibank. However, because local clients viewed Shinsei as a Japanese bank, the organization did face external normative constraints when introducing the new practice. In line with the analysis of the previous chapter, the effects of foreignness thus appear to be most significant in terms of external factors. Figure 10-1 adds this insight to the analysis developed in Chapter 9.

Figure 10-1: The Effect of Foreignness on Adoption Barriers

- Internal focus upon innovation, emphasis on financial ratios over relationships
- Internal constraints: cognitive barriers exist, no normative barriers
- External image as innovator and norm-breaker
- External constraints: cognitive barriers, no normative barriers

258
10.2 Adoption and Implementation Strategies

While differences in adoption barriers go some way in explaining why the banks varied in their introduction of loan syndication, they do not tell the whole story. Specifically, the variation in adoption and market entry barriers only tells us that the banks faced different sets of limitations and opportunities; to understand the full impact of foreignness and its effect upon the introduction of loan syndication, we must also investigate the actual implementation strategies that the organizations undertook to overcome these barriers. The adoption and implementation strategies of the three banks are compared in Table 10-5 and discussed in greater detail below.

Table 10-5: Adoption and Implementation Strategies

<table>
<thead>
<tr>
<th>Type of barriers to adoption (internal and external)</th>
<th>Citibank</th>
<th>IBJ/Mizuho</th>
<th>Shinsei</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of understanding and knowledge (Cognitive)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Logical explanation of financial benefits; Deal-by-deal information</td>
<td>Logical explanation of benefits; Explaining new practice as a way of perpetuating main bank system; Adapting practice to fit existing routines and norms; Introducing new practice on an incremental basis; Broad market-based approach (JSLA, publications, seminars)</td>
<td>No internal opposition; external expectations of traditional lending (Normative)</td>
<td></td>
</tr>
<tr>
<td>Selecting niche market segments willing to accept norm-deviance</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

IBJ/Mizuho: Education, Enlightenment, and Legitimization

As Table 10-5 indicates, IBJ/Mizuho adopted a number of different strategies in order to overcome cognitive and normative barriers to introducing loan syndication. During interviews, respondents at the bank talked in particular about an “education and enlightenment” campaign whereby the bank actively sought to promote the new practice. As noted in the case, this campaign was far-reaching, with IBJ/Mizuho representatives visiting customers in virtually every corner of the country. Moreover, the education and enlightenment campaign was also inward looking as managers with previous loan
syndication experience ran information sessions and educational seminars for other IBJ/Mizuho employees and staff.

A major part of the education and enlightenment effort was aimed at explaining and making sense of loan syndication; starting with Shusaku Minoda and subsequently stretching through the late 1990s and early 2000s, proponents of the new lending practice sought to overcome cognitive barriers by detailing its characteristics, pointing out in particular the benefits and advantages it held for various constituents. Among relationship managers, the bank extolled the virtues of making extra fees, borrowers learned about the cost-benefits, and investors were shown how loan syndication could reduce their lending risk as well as garner extra income.

As noted, efforts at increasing information and understanding of loan syndication did not necessarily reduce the normative barriers IBJ/Mizuho faced. To overcome these constraints, the bank further adopted a number of measures to legitimize and gain acceptance for the new practice. To begin with, IBJ/Mizuho linked loan syndication to existing main bank practices, norms, and behaviors. As discussed in the case, a central argument towards both relationship managers and borrowers was that loan syndication would in fact ensure IBJ/Mizuho's continued commitment and role as a main bank. In order to enforce this notion, the bank used terminology similar to that of the traditional system (e.g. "core bank " instead of "main bank ").

The linkage to traditional practices was not only in terminology; it was also in the format of the product itself. IBJ/Mizuho initially introduced sub-participation and club-syndications, watered-down versions of full syndication that placed limits upon who could participate in the transaction. The bank also continued to take large portions of customer loans on its balance sheets, introduced clauses prohibiting loan trading without customer consent and offered economic incentives in the form of reduced rates and beneficial lending policies. To ease investors' fears, the bank moreover offered trial periods and preferential access to loans.

To overcome further internal opposition, IBJ/Mizuho also developed its own version of the practice, emphasizing existing norms and logics of the Japanese banking sector. As noted in the case studies, neither Minoda nor any of his colleagues actively benchmarked or imitated the practices introduced by Citibank's Japan subsidiary, despite the fact that it was operating in the same market.
These internal and external legitimization efforts were supported by active use of the newly formed JSLA, publications in the financial press and professional journals, as well as regularly occurring large-scale seminars for borrowers and lenders. Taken together, the IBJ/Mizuho thus adopted a broad market-building approach in order to gain legitimacy and acceptance for the new practice.

Citibank: Deal-by-Deal Logical Explanations

As with IBJ/Mizuho, Citibank sought to overcome cognitive barriers by emphasizing the product's specific advantages and benefits. Unlike the Japanese bank, however, Citibank's efforts were extended upon a deal-by-deal basis; rather than embark on a larger education strategy to reach all its clients at once, Citi contacted individual firms whom it believed would be interested in the practice, and pitched the practice to them directly. It made little use of alternative information channels, such as newspaper and journal publications, external seminars and industry associations.

Citi also differed from IBJ/Mizuho in that its education policies were primarily directed at external customers; while respondents at the bank noted that the new practice often took some time to explain to both borrowers and lenders, they make little mention of internal education policies. In fact, the responses appear to indicate loan syndication was adopted relatively quickly by internal actors "...once they saw that it made money...", as one interviewee noted. This fast adoption was also facilitated by support from upper management.

A significant difference between Citibank and IBJ/Mizuho's approaches is also the former's overwhelming reliance upon logical analysis as a way of explaining and promoting the new practice. As noted in the previous chapter, Citibank's internal organizational routines and traits were characterized by a strong emphasis on financial metrics. This technical focus was a recurrent theme when interviewees explained how and why loan syndication was adopted by Japanese borrowers and investors. Respondents noted that loan syndication became successful once customers understood it "logically" and "got the necessary information". Indeed, managers at Citibank indicated that the only real barrier to getting loan syndication onto the market was making customers aware of its advantages and benefits; once this was communicated, the popularity of the product increased.
Support for Citibank’s introduction was, of course, also aided by NEC’s willingness to try the new product. Before this, Citi’s loan syndication effort had struggled and was even on the verge of being shut down. A central reason for this appears to have been that customers did not realize or understand the uniqueness of the product; recall from the previous chapter that Citi’s external image centered on providing innovative and unique products that differed from those of the local market. As long as local customers did not see any differentiation between loan syndication and normal lending, they remained uninterested—effectively, there was no “excuse” to use the foreign bank over traditional house banks. However, once NEC tried the practice, and it gained media attention, local customers came to view the service as unique and were more inclined to adopt it.

Citibank’s implementation strategy is also noteworthy for what it did not contain. In contrast to IBJ/Mizuho, for example, the bank not only concentrated its efforts to individual deals rather than the broader customer base, it also declined membership in the JSMA. Citibank did not arrange major seminars or information sessions, nor did it publish articles in Japanese journals extolling and explaining loan syndication; this is despite the fact that foreign experts based outside Japan did write articles for these journals. In comparison to IBJ/Mizuho, Citibank’s implementation strategies almost completely lacked any form of normative legitimization efforts.

**Shinsei: A Focus Upon Niche Market Groups**

Shinsei’s implementation strategies differ somewhat from both Citibank and IBJ/Mizuho. To begin with, the bank entered the market at a time when there was greater understanding and knowledge of loan syndication; as a result, it did not have to undertake any specific adoption or implementation strategies to overcome cognitive barriers. While the bank did face normative constraints in the form of expectations of continued traditional lending, it sought to get around these by focusing specifically upon smaller markets and customers that...
The Paradox of Foreignness

would be willing to relax their demands and accept Shinsei's form of loan syndication. Like Citibank, Shinsei thus largely avoided major legitimization strategies, but only at the price of focusing on specific niche customers with relaxed expectations, rather than on the market as a whole.

Product Format

The variations in the bank’s implementation strategies also had a subsequent effect upon the nature of their underlying products. In order to gain legitimacy, IBJ/Mizuho relaxed some of the formats of loan syndication; this included sub-participation and club syndications, limited loan trading, and taking greater amounts of loans on books. Ownership of the loans also remained in the hands of relationship managers, as was common under the main bank system.

Conversely, Citibank maintained a more norm-deviant version of loan syndication that mirrored global practice standards. Since the bank faced no significant normative opposition from clients, it had little incentive to adapt the practice to fit existing main bank norms. In turn, Shinsei’s loan syndication product was similar to that of Citibank; the organization maintained a strict focus upon hurdle rates and sought to limit the use of its balance sheet. At the same time, it was also forced to adapt some aspects in order to gain acceptance from clients. Table 10-6 compares and contrasts the product characteristics of the three banks.

Table 10-6: Product Characteristics

<table>
<thead>
<tr>
<th></th>
<th>Citibank</th>
<th>IBJ/Mizuho</th>
<th>Shinsei</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans held on books</td>
<td>Max 10%; strict process of selling remainder</td>
<td>30% to 60% of lending kept on balance sheet</td>
<td>Aim to syndicate max; at times more on books</td>
</tr>
<tr>
<td>Loan trading</td>
<td>No customer consent required</td>
<td>Customer consent required</td>
<td>Will not sell if customer is opposed</td>
</tr>
<tr>
<td>Fees</td>
<td>Strict adherence to internal hurdle rate</td>
<td>Will reduce hurdle rates to promote participation</td>
<td>Strict adherence to internal hurdle rate</td>
</tr>
<tr>
<td>Third-party investor</td>
<td>No borrower influence over third-party participation</td>
<td>Controlled by black lists sub participation and club syndications</td>
<td>No club syndications or black lists, sensitive to borrower demands</td>
</tr>
<tr>
<td>Ownership of loan</td>
<td>Portfolio mgmt group has loan ownership</td>
<td>RMs own loans; portfolio mgmt group advisory role</td>
<td>Portfolio mgmt group has loan ownership</td>
</tr>
</tbody>
</table>
Foreignness, Implementation Strategies and Product Format

The above analysis suggests then that not only did the nature of barriers to introduction vary by foreignness, so too did the subsequent implementation strategies. Consider first the case of IBJ/Mizuho: in order to overcome both cognitive and normative barriers, the bank could have chosen to emphasize the technical merits of loan syndication to aggressively move away from traditional lending practices; In 1998 and 1999, the Japanese banking system was at its most precarious state and radical change is often implemented during major external shocks and institutional convulsions (Oliver 1991). We should also remember that a radical transformation of traditional practices was the initial goal of people such as Shusaku Minoda who returned to Japan during this period.

Minoda and others similar to him did initially attempt to introduce a loan syndication product in line with global practices. This effort, however, failed miserably because it challenged fundamental norms, expectations, and routines deeply institutionalized among both internal organizational members and external clients. Due to its role and position as a local Japanese bank, IBJ/Mizuho was left with little choice but to engage in large-scale legitimization efforts, adapting the underlying product to link it with pre-existing practices, norms, and logics of the main bank system.

Thanks to its foreign role, Citibank, conversely, faced none of these pressures and, hence, implemented the new practice largely without any legitimization strategies. Nor did the bank adapt its product to fit with pre-existing main bank norms and routines. Crucially, this lack of adaptation was driven not only by weak external pressures for conformity; it was also propelled by the bank's internal attributes. As noted previously, Citi was an organization characterized by a strict adherence to technical factors; adapting loan syndication along the lines of IBJ/Mizuho would have entailed departing from these hurdle rates and maximum hold levels, resulting in significant disruptions and opposition from organizational members.

A possible counter argument here is that it was not foreignness per se that precluded Citibank from having to focus upon legitimization strategies; rather, it was internal norms and practices inherited from the home market. While this may have some merits, it is important to emphasize that Citibank did, in fact, devote significant resources and energy to legitimizing the practice when it was introduced in its home
The Paradox of Foreignness

U.S. market, as noted by David Larson in Chapter 6. This would suggest that the lack of focus upon legitimization efforts was not specific to Citibank as a firm, nor its home market; rather, it was particular to its foreign position in the host country.

Foreignness, thus, impacted not only the barriers to adoption faced by the various banks; it also had a direct influence on product format and characteristics at each of the organizations. As a domestic bank, IBJ/Mizuho introduced loan syndication by linking it to pre-existing practices through broad legitimization strategies. As a weakly embedded foreign organization, Citibank eschewed linkages to pre-existing norms, focusing instead on technical merits. A brief look at Shinsei’s implementation strategies lends support to this notion: although it faced no significant technical barriers, as a Japanese bank Shinsei was nonetheless forced to alter its underlying product strategy as a way of overcoming the normative barriers it faced as a Japanese bank. Figure 10-2 adds these insights to our previous process-model:

Figure 10-2: The Effect of Foreignness on Implementation Strategies

10.3 Taking Radical Action: The Advantages of Foreignness

In the preceding analysis, I have outlined the linkage between foreignness, barriers to adoption, and subsequent implementation strategies. In particular, we have seen that, as a result of foreignness, the demands placed upon the banks in the study differed considerably. We can now complete this analysis by focusing upon our dependent
variable: the introduction of loan syndication as a radical strategic action. In particular, I am concerned with both the speed of implementation as well as the underlying characteristics of this implementation process. As I discuss below, three central differences between the banks can be discerned; I argue that all three are centrally connected to each organization's level of foreignness.

**Speed of Introduction**

In Chapter 5, we saw that the adoption rates of loan syndication differed between the foreign and Japanese banking corporation. This difference is also evident when comparing the three individual banks. While Citibank and IBJ/Mizuho both started their loan syndication efforts roughly at the same period, the time it took for each bank to implement and fully accept loan syndication differed significantly. In the case of Citibank, the loan syndication desk was an active and central part of the business within six months of its original start. Conversely, IBJ's adoption of the practice took several years. Although the bank was able to close a deal with a major electric power company in 1999, this had to be done in secret. Subsequently, a smaller number of deals were implemented, but the loan syndication function remained in the periphery of the bank's activities. Not until 2002, with the creation of Mizuho, was loan syndication recognized in the internal organizational structure and implemented to a greater extent among external actors. Thus, it took IBJ/Mizuho roughly 5 years to introduce a practice that, by comparison, only took Citibank six months.

In turn, Shinsei's adoption and implementation of loan syndication began soon after its founding, around 2000. In particular, the bank was active in a number of loans during this period. Shinsei, however, did not establish an official loan syndication function until 2005, several years after the creation of Mizuho and at a time when loan syndication had become well known and largely accepted by the local populace. Although Shinsei's adoption was considerably slower than that of Citibank, it was also faster than that of IBJ. This observation is, to some extent, to be expected given the fact that loan syndication was, by this time, accepted by a majority of both local banks and customers.

The analysis, hence, suggests foreignness enabled early market entry by reducing normative barriers to adoption. In particular, foreign banks as a population entered loan syndication earlier than their domestic counterparts despite the lack of any discernable differences.
in firm-specific knowledge, capabilities or skills. If anything, we would in fact expect Japanese banks to have been faster adopters of the practice as extensive relationships with investors are crucial resources for successful loan syndication.

**Lower Implementation Costs: Avoiding Legitimization Processes**

A second effect of foreignness was to decrease the legitimization costs associated with the norm-breaking action. Organizations challenging institutionalized norms and practices must often spend time and effort in order to gain support from local constituents (Casile & Davis-Blake, 2002). Moreover, they also often face costs in the form of sanctions and punishment by actors who deem their action illegitimate and inappropriate (Jonsson & Regnér, 2009). Because of its foreignness, however, Citibank faced no normative barriers and did not need to justify the new practice to local actors. Nor was the bank heavily penalized by important internal and external constituents. As a domestic bank, IBJ/Mizuho was, conversely, forced into lengthy legitimization efforts in order to gain acceptance for the new practice. Notably, these legitimization efforts were not only lengthy; they were also expensive in terms of resources and time, as well as opportunity costs. Had IBJ/Mizuho been able to implement loan syndication faster, it may have conceivably been able to rebalance its portfolio quicker and price loans more competitively at an earlier stage. The important implication of this is that, by reducing the need for large scale legitimization processes, foreignness lowers some of the costs that often arise when introducing novel practices (again, it should be emphasized that Citibank, in fact, bore many of these costs when it introduced loan syndication on its own home market).

**Product Differentiation: the Ability to Introduce Unique Products**

A third and final effect of foreignness was that it enabled Citibank to introduce loan syndication without major adaptation. As noted previously, IBJ/Mizuho was forced to alter the original product and link it with pre-existing practices in order to gain acceptance. As a consequence, many of the underlying financial benefits of loan syndication (including loan trading and leverage) were diminished. Because foreignness reduced pressures for adaptation, however, Citibank could introduce these characteristics largely intact, thereby
differentiating its offerings to a much greater degree and benefiting from the financial advantages of loan syndication.

Table 10-7: Timing, Format and Product Characteristics of Loan Syndication

<table>
<thead>
<tr>
<th></th>
<th>Citibank</th>
<th>IBJ/Mizuho</th>
<th>Shinsei</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreignness</td>
<td>High</td>
<td>Low</td>
<td>Low-Medium</td>
</tr>
<tr>
<td>Internal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>attributes</td>
<td>Focus upon unique innovation and technical factors over relationships and social norms</td>
<td>Emphasis on norms and technical factors over technical factors; little emphasis on unique innovation</td>
<td>Focus on unique innovation and technical factors; some focus on relationships and social norms</td>
</tr>
<tr>
<td>External</td>
<td>Image as norm-breaker and pioneer</td>
<td>Expected to comply with existing institutional framework and norms</td>
<td>Some pressure and expectation for isomorphism</td>
</tr>
<tr>
<td>attributions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal barriers to adoption</td>
<td>Cognitive barriers; No Normative barriers</td>
<td>Cognitive barriers; Normative barriers</td>
<td>No Cognitive barriers; No Normative barriers</td>
</tr>
<tr>
<td>External barriers to adoption</td>
<td>Cognitive barriers; No Normative barriers</td>
<td>Cognitive barriers; Normative barriers</td>
<td>No Cognitive barriers; Normative barriers</td>
</tr>
<tr>
<td>Implementation costs</td>
<td>No legitimization costs</td>
<td>Significant legitimization costs; opportunity costs</td>
<td>No legitimization costs</td>
</tr>
<tr>
<td>Product alteration</td>
<td>No major alterations</td>
<td>Major alterations</td>
<td>Some alterations</td>
</tr>
<tr>
<td>Time to full adaptation (years)</td>
<td>0.5</td>
<td>5</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 10-7 above arrays the various key points of the analysis thus far and compares them across the banks. The insight that emerges from the table is that foreignness did indeed enable radical norm-breaking action, both in terms of timing, legitimization costs, and product adaptation. Moreover, these effects are connected through specific causal chains; foreignness resulted in internal attributes emphasizing innovation and technical requirements over institutional pressures. In turn, this resulted in lower normative constraints, a reduced need for legitimization strategies, and less product adaptation. As a result, Citibank was able to enter the market faster, at lower cost, and with a unique product. Figure 10-3 adds these insights to our previous figure to emphasize a process-based model of how foreignness served as an advantage for in introducing norm-deviant loan syndication.
10.4 Sustaining Action: The Disadvantages of Foreignness

As the process-model in Figure 10-3 denotes, foreignness enabled Citibank and other non-domestic banks to enter loan syndication early on, hence, coming to dominate the market in its inception. Over time, however, the number of Japanese adopters of loan syndication grew, as did their share of the market. From having held over 90% market share during 1997 and 1998, foreign banks gradually saw their share dwindle to levels around 3% by 2005. By 2007, foreign banks had largely withdrawn from the general loan syndication market, choosing instead to focus their activities upon specialized syndications linked to structured finance, private equity, management buy-outs, and high-leverage debt. The critical question to be asked is: how did foreignness impact this subsequent evolution of the loan syndication market?
Japanese Banks as Market Builders

Above I suggest foreignness gave Citibank and other non-domestic firms an advantage because it negated the need for acquiring normative legitimacy for the new product. Citibank only faced cognitive barriers to introducing loan syndication while IBJ/Mizuho, due to its domestic position, was forced to adopt a large-scale legitimization strategy in order to engender acceptance for the practice.

Although this legitimization strategy demanded both time and resources, it also allowed IBJ/Mizuho to take a leading role in defining and standardizing the emerging loan syndication market. By visiting numerous customers across the country, contributing to the creation of the JSLA, publishing journal articles and holding seminars, IBJ/Mizuho not only ensured that its own customers would come to accept the practice, it also came to be seen as one of the leading authorities and proponents of loan syndication in Japan. While Citibank may have been the product innovator, IBJ/Mizuho became the market builder, engaging with academics, regulators, customers, and other Japanese banks to build up the structure and standards of the new market.

Moreover, this role as market builder did not emerge by chance; instead, it was a calculated and purposeful strategy. Respondents at IBJ/Mizuho noted, for example, that loan syndication was "...not a market that one bank could build alone..." and that the purpose of the JSLA was specifically to standardize and bring structure to the industry. Respondents also contrasted IBJ/Mizuho's approach with that of the foreign banks, noting that the foreign firms "...were not interested in building a market..." A response from Shusaku Minoda, one of the leading proponents of loan syndication at IBJ/Mizuho, sums up this notion particularly well:

"...the first was Citibank, I should admit...But Citibank's example could never be considered as the pioneering deal of syndication...because they didn't explain it in that way. Sometimes, doing the deal is not important; the record that you did a deal each year is not that important. How that deal affected the entire market; how that deal gave imagination to the people...that is more important, that's the key...They insist: 'We did the first syndicated finance.' 'So what?' is my question. Whatever they did, it did not have a significant impact on society [and] it's the impact on society that counts."
The fact that the impact on society was so important to IBJ/Mizuho, of course, stems from its role and position in the market as a leading domestic bank. As an organization which prioritized institutional pressures and norms over technical factors, IBJ/Mizuho was acutely aware of, and sensitive to, how its actions and behaviors impacted the entire market and the larger society. Through its expansive legitimization efforts, and education and enlightenment strategies, the bank sought to play an active role in shaping the institutional structures and norms of the broader Japanese market.

Reframing Loan Syndication: From Radical to Convergent Action

The fact that IBJ/Mizuho took on the role as leading market innovator and institutional reformer does not, in itself, explain the gradual loss of market share and marginalization of the foreign banks. Indeed, we might expect that the more IBJ/Mizuho emphasized and supported loan syndication, the more this would benefit Citibank as the original pioneer of the product. Citibank, for example, did initially attempt to help the Asia-Pacific Loan Market Association from Hong Kong set up a representative office in Tokyo with the aim of promoting loan syndication.

The answer to this question lies in the nature of the standards and practices promoted by the Japanese bank. As discussed, IBJ/Mizuho’s version of loan syndication was adapted to fit the pre-existing norms of the main bank system, including large amount of loans kept on balance sheets, controlled syndications (i.e. the use of black lists), reduced fees, and constrained loan trading. Thanks to IBJ/Mizuho’s leading role as market builder, the form of loan syndication that was subsequently adopted by Japanese companies exhibited crucial differences from the original product introduced by Citibank and other foreign institutions.

Through this process, IBJ/Mizuho and other Japanese banks, hence, reframed loan syndication, essentially transforming a radical strategic action to a convergent action, which supported rather than defied legacy institutions. As Minoda noted, the version of loan syndication introduced by IBJ/Mizuho did not so much challenge the main bank system as it did, in fact, enable many of the old practices to survive.

It was this reframing of the practice from radical to convergent that, in turn, had a negative impact upon Citibank and other foreign firms’
Chapter 10

market positions. As noted in the previous chapter, Citibank was seen as the purveyor of unique, differentiated, and "sexy" products. As loan syndication went from radical to convergent, customers gradually came to rely less upon Citibank and more on their domestic house banks for the underlying products. In other words, syndication became an established product market where relationships and adherence to existing norms began to play a more important role; thus, there was no longer any "excuse" to use the foreign bank over existing house banks. As Ajay Sharma, a manager on the Global Loan Syndication desk at Citibank, noted:

"... it's not necessarily that the house bank comes with the most optimal solution but I think the natural inclination is to talk to the main bank [for financing]. And so, I think the old relationships obviously do matter."

Notably, the reframing and standardization of loan syndication reduced Citibank's market share not only because embedded domestic relationships came to play a bigger role; the bank was also constrained by its own internal routines and structures. As noted earlier, Citibank operated upon strict adherence to financial metrics and would seldom, if ever, abandon these in order to close a transaction. As the Japanese version of loan syndication gained traction and customers came to expect banks to keep more of the loans on the books and lower their fees, many of Citibank's internal financial ratios effectively prevented the bank from competing in the market. As interviewees at Citibank noted, by 2007 it had become very difficult to challenge Japanese banks in plain vanilla loan syndications because of their competitive pricing.

Ceding Normative Ground: Foreign Banks Outside Institutional Processes

A question that arises is why Citibank did not seek to counter IBJ/Mizuho's activities by actively disseminating and legitimizing its own version of loan syndication. After all, Citi was the initial pioneer in loan syndication and, thus, had both the attention and support of its client base in introducing the new products.

It is important to realize that IBJ/Mizuho's reframing process was a direct result of the bank's effort to adapt loan syndication to existing practices, as well as its use of broad forums such as the JSLA to disseminate information about loan syndication. As noted above, these
actions were directly linked to IBJ/Mizuho's domestic position and the normative barriers to adoption it faced.

Conversely, Citibank had no need for such legitimization strategies. Thanks to its foreignness, Citi faced few normative barriers to introduction; hence, it neither sought to link loan syndication to pre-existing norms, nor use broad public forums to appeal to local actors. While this enabled the bank to introduce loan syndication earlier (using less resources and with minimal adaptation), it effectively also marginalized the bank from subsequent institutionalization processes. While foreignness buffered Citibank from the constraining effects of local norms and values, it also prevented the bank from capitalizing upon the enabling and empowering aspects of the institutional environment. Citibank, like other foreign banks, found itself excluded from the institutional processes and market construction that took hold as the loan syndication began to grow.

It might be easy to assume that Citibank's unwillingness to implement legitimization strategies was a strategic mistake; an inability to foresee the subsequent changes in the market. On the other hand, the bank's unwillingness to engage in legitimization efforts is also in line with its foreign role. To begin with, respondents at Citibank were acutely aware that, in any head-to-head competition with local banks, existing relationships would always win, hence, putting them at a disadvantage. This insight led the bank to focus upon niche and differentiated unique products in the first place. A broad legitimization effort on the part of the Citibank might have cemented its version of loan syndication yet, the Japanese banks would, over time, have imitated this as well. At this point, customers would have reverted back to their traditional house-banks, just as they had done in other markets. There was, hence, little evidence to suggest that the time and resources required for building legitimacy and an overall market standard would benefit Citibank in the long run.

Secondly, legitimization is, by its very definition, an action that demands attention to institutionalized norms, behaviors, and logics. Any attempt by Citibank to foster larger normative acceptance for its practice might, therefore, have involved linking loan syndication with existing main bank practices. As discussed in the previous chapter, however, Citibank's internal organizational attributes were heavily tilted away from social norms and institutionalized behaviors; adapting the product to achieve legitimacy might, hence, have been difficult in light of the strong adherence to financial metrics and technical
requirements. As previously argued, rather than adapt the product, Citibank, effectively withdrew from the loan syndication market as these financial ratios came under pressure with increased competition.

In line with both its internal attributes and external attributions, Citibank pioneered loan syndication by focusing exclusively on technical factors, with little emphasis on institutional processes. As these processes came into increasing play with the evolution and growth of the industry, Citibank effectively lacked the resources and capabilities to engage in institutional contestations and institutional entrepreneurship. As a result, the bank effectively ceded normative ground to IBJ/Mizuho, allowing Japanese banks to reframe the practice. Citibank instead turned to new innovations that would allow it to leverage its pioneering and norm-breaking foreign role in other markets. Figure 10-4 adds this insight to our previous process model.

Figure 10-4: Advantages and Disadvantages of Foreignness in Introducing Loan Syndication
10.5. The Effects of Foreignness: A Recap

While the previous chapter focused on the independent variable, seeking to highlight the specific attributes and attributions of foreignness, the preceding discussion has concentrated on the core research question, seeking to delineate the specific effects of foreignness and their underlying mechanisms. Building on the initial research framework introduced in Chapter 2, the chapter has identified the various constraints faced by three banks in introducing foreignness, their subsequent implementation strategies to overcome these constraints and the final end-results in terms of both the introduction and subsequent development of loan syndication.

Contrasting the findings of these three different elements of norm-breaking with different levels of foreignness yields interesting results. In particular, the chapter shows that foreignness enabled Citibank to adopt loan syndication both earlier, faster and with less costs than IBJ/Mizuho and Shinsei. Foreignness enabled this action primarily by reducing the normative barriers to adoption that Citibank faced, both internally and externally. The findings suggest in particular that external norms and expectations played a key role in enabling Citibank’s early market entry; while IBJ/Mizuho was prohibited from entering the market due to opposition from both borrowers and lenders, these same actors allowed, and even encouraged, Citibank to introduce the novel practice. Foreignness hence served as a positive source of differentiation, essentially enabling Citibank to go where no Japanese banks could.

However, this same source of differentiation was a disadvantage over the longer term; in particular Japanese banks centrally embedded in the local market were able to co-opt the novel practice thanks to their legitimization strategies, essentially reframing it from a radical norm-breaking action to a convergent innovation. Because of its foreign and outsider position, Citibank was both unable and unwilling to take part in these reframing processes. Consequently the bank lost market share and eventually moved on to alternative products. As noted in Chapter 5, the foreign population of banks as a whole appears to exhibit this trait, reducing their market share and presence in the market over the medium to long-term as Japanese banks entered in greater numbers.

The insights hence provide strong empirical evidence that foreignness was indeed an advantage to the bank, yet they also
indicate a range of other dynamic effects. In the final chapter I tie these various insights together to discuss the paradoxical effects of foreignness.
Chapter 11

The Paradox of Foreignness: Conclusions and Contributions

Being a foreign organization in local institutional settings is a condition shared by every MNE subunit, regardless of its home or host country. Indeed, foreignness is inextricably linked with multinationality and the ability to organize across borders, the very definition of being an MNE (Westney 1993). As a result, foreignness can be seen as a difference in kind (Westney & Zaheer 2001): the unique trait that sets the MNE apart from its purely domestic competitors.

Somewhat surprisingly, international business scholars have primarily viewed this unique trait as a negative aspect. Based upon the assumption that being different is tantamount to being disadvantaged or stereotyped, students of the MNE have devoted the majority of their efforts to studying the liabilities of foreignness, as well as ways of overcoming this negative effect.

While there is little doubt that foreignness can - and does - act as a liability, the founding idea behind this study is that it might also be more than that. Adopting an organizational approach to foreignness, the study builds upon research in sociology to ask whether foreignness can lead to a differentiated role or position for the MNE. This work seeks to understand how such a role might impact the subunit's actions and behaviors. Can foreignness be an advantage? If so, how and why? And how can the advantages of being foreign be reconciled with the well-known liabilities of foreignness?
In this final chapter, I return to these underlying questions, synthesizing the analysis in chapters 9 and 10 into a general framework. I subsequently discuss the impact and implications of this framework upon our understanding of foreignness specifically, and also on the broader view of the MNE - including the evolution of subsidiary capabilities and strategies in host countries, the competitive advantage of multinational enterprises, and the role of MNEs in host country institutional change processes.

11.1 The Paradox of Foreignness

To date, research on foreignness has operated almost exclusively upon Hymer's (1960/76) original assertion that MNE subunits face inherent disadvantages vis-à-vis domestic firms in host countries. Adopting this notion as an *a priori* assumption, scholars have focused the majority of their attention upon measuring and identifying the liabilities of foreignness (Mezias, 2002; Miller & Parkhe, 2002; Sofka, 2006; Zaheer & Mosakowski, 1997), as well as the means by which to mitigate them (Eden & Miller, 2004; Luo, Shenkar & Nyaw, 2002; Zaheer, 1995).

This study challenges the overriding emphasis upon the negative effects of being a foreign firm. Drawing upon emerging research in organizational sociology and institutional theory, it has investigated whether foreignness might potentially also confer advantages to the MNE subsidiary. The findings suggest foreignness did, indeed, enable foreign banks to introduce norm-breaking products earlier and more easily than their domestic counterparts. Moreover, the results also show that foreignness was more than simply an effect; it also defined the very role and position of the banks in the host country institutional setting, impacting both their internal routines and external image.

While the results do not directly negate or contradict existing research, they do offer strong evidence that current approaches have failed to consider and investigate the full consequences of being foreign in host country institutional settings. These consequences are, in turn, both complex and dynamic; in particular, foreignness had not only both positive and negative effects on the MNE subsidiaries, these effects were also mutually reinforcing and dynamic. Rather than speak alternatively of liabilities or advantages of foreignness, the insights from the study point to a *paradox of foreignness*. In particular, foreignness had a paradoxical effect because it both laid the
The Paradox of Foreignness

groundwork for the initial advantage in introducing norm-breaking action, as well as the subsequent loss of market share and eventual move out of loan syndication.

The paradox of foreignness can be exemplified by synthesizing the insights from the previous chapters into a process framework, as presented in Figure 11-1. At the heart of the framework is the state or role of the MNE, interlinking foreignness with internal attributes and external attributions, as discussed in Chapter 9. This role impacts norm-breaking throughout four distinct stages.

Stage 1: Foreignness and Product Innovation

In stage 1, the MNE subsidiary responds to the negative effects of foreignness by reorienting its focus to niche and differentiated markets where competition from local actors is low. In doing so, the subsidiary often enters underdeveloped or non-existent segments, effectively becoming the pioneer in these areas. Since the MNE subsidiary's internal attributes are focused upon technical factors and give comparatively less weight to institutionalized norms and behaviors, it is also more apt to pioneer segments that defy pre-existing institutionalized norms, behaviors, and strategies.

Stage 2: Early Market Dominance Due to Low Normative Barriers to Entry

In stage 2, the MNE subsidiary subsequently introduces the novel practice on the host country market. Despite the norm-breaking character of its actions, the subsidiary faces comparatively little opposition from domestic actors due to its foreignness and separate role on the market. This results in a relatively speedy introduction of a unique and unadulterated product, with few legitimization costs.

In turn, domestic actors are slow to respond to the foreign firm's actions. This may be because the host country actors themselves view the action as illegitimate, and/or because external pressures for isomorphism hinder its adoption and imitation. Normative barriers that result in costly and time-consuming legitimization activities, as well as significant adaptation to fit local norms and behaviors, thus hinder initial imitation by domestic actors.

Foreignness, therefore, becomes an advantage for the MNE - both by enabling the subsidiary itself to introduce norm-deviant action, and by simultaneously limiting direct imitation and competition by local actors.
Chapter 11

Stage 3: Institutional Processes and Reframing of Norm-Breaking Action

In stage 3, institutional processes surrounding the new product are activated; these are exemplified by the creation of market rules and guidelines, industry associations, documentation standards, and the diffusion of best-practices. Because they are forced to engage in substantial legitimization processes to overcome normative barriers to introduction, domestic actors play a leading role in these institutional processes. Moreover, because the domestic actors' legitimization efforts often link the new practice with pre-existing norms and behaviors, the institutional processes may serve to reframe the original action, making it norm-convergent rather than norm-deviant.

Due to their outsider position and the lack of normative opposition to norm-breaking, foreign firms largely refrain from undertaking broad legitimization strategies; as a result, they often find themselves ill-equipped to influence and take part in the subsequent institutional processes. Moreover, they have little incentive to do so since greater legitimization of the product will lead to faster imitation by domestic actors and, hence, a loss of market share as local customers revert back to their traditional clients.

Stage 4: The Marginalization of Foreign Firms in Established Market Segments

As the institutional processes bear fruit and the reframed domestic-led practices diffuse throughout the industry, foreign firms are marginalized and lose market share, as shown in Stage 4. This marginalization takes place partially because the product is no longer seen as novel and unique; foreign firms are thus unable to offer domestic actors a rationale for choosing them over their traditional ties. The marginalization is also a result of competitive pressures as the technical requirements of foreign firms prohibits them from taking part in markets where competition is based not only upon technical features, but also institutionalized norms and assumptions. As foreign firms lose their competitive position and advantage, they turn their attention to new unique product innovations and practices, effectively "moving up the ladder of complexity", as described by one Citibank respondent. This brings the process full circle back to stage 1.
Figure 11.1: The Paradoxical Effects of Foreignness

Stage 1: Responsive action by the MNE subsidiary

- Internal and external focus on innovation & unique products
- Emphasis on technical requirements
- Foreignness
- Reinforcing mechanisms create a steady role for MNE
- External image as innovator and norm-breaker
- Internal focus on technical requirements over institutional pressures
- Lack of emphasis on institutional processes
- MNE unable/unwilling to compete in established product
- Weak normative barriers enable MNEs to introduce new services; domestic actors hindered by normative barriers

Stage 2: The advantage of foreignness

- Positive competitive effect

Stage 3: Responsive action by domestic actors

- Negative competitive effect

Stage 4: The liability of foreignness

- Domestic actors reframe product/service; MNEs excluded from institutional processes
Reflections on the Paradox Framework

The framework presented in Figure 11-1 delineates foreignness into both its internal and external characteristics, and their subsequent effects on norm breaking. In particular, it explicates how the characteristics of foreignness resulted in both disadvantages and advantages. Citibank was disadvantaged when entering established and mature markets where embedded relationships were an important source of competitive advantage. Conversely, foreignness was an advantage when proposing novel practices and actions that broke new ground and challenged existing orthodoxies.

The framework also makes a separation between the steady state or role of the foreign bank, and the different stages of norm-breaking (i.e. the effects). This conceptualization reflects the findings from the current study, which has focused upon a foreign bank that had already established its position in the local market and come to develop the specific internal and external characteristics associated with foreignness. It is important to emphasize, however, that the state of foreignness and its subsequent effects described in the four stages reinforce each other, as indicated by the double-headed arrows connecting the interior and exterior portions of the framework. The cycle described in Figure 11-1 can thus be understood as continuously ongoing; it begins with the very initial entry of the foreign firm and its first attempt at introducing a new product. As the implications of foreignness become clearer, the specific attributes and attributions of foreignness form. It was through multiple revolutions of this cycle that Citibank learned about the local market and adapted its internal practices, as well as formed its external image. As a result, the exterior cycle is both an initial cause and subsequent effect of the attributes and attributions of foreignness. The state of foreignness and its effects are, thus, closely inter-related, essentially reinforcing each other.

A reinforcing mechanism is also evident when comparing the disadvantages and advantages of foreignness. The disadvantages of foreignness initially pushed Citibank to develop internal practices and an external image geared towards innovation and norm breaking. These internal and external traits were an advantage in norm breaking since they lowered normative barriers, enabling the bank to introduce loan syndication without costly legitimization efforts. Ironically, this very advantage of avoiding legitimization strategies also laid the foundation for subsequent disadvantages since it prevented Citibank
from effectively taking part in the institutional processes that surrounded the novel product.

The paradox is therefore not only that foreignness leads to both advantages and disadvantages, but also that the two effects work in symbiosis, essentially reinforcing each other in a cyclical pattern. Disadvantages beget advantages that, in turn, beget disadvantages, and so on. Taken together, the framework thus casts some initial light on the mechanisms by which foreignness impacted Citibank’s ability to take radical norm-breaking action in the Japanese banking industry.

Generalizability and Broader Applicability of the Paradox Framework

While the framework presented provides an overview of the paradoxical effects of foreignness, it is also grounded in findings of one specific study. An important question is: to what degree are the results generalizable to the MNE subsidiary at large, regardless of industry, country of origin or market location? After all, the ambition with this investigation is to generate insights that are applicable beyond the specific empirical phenomenon in question.

In Chapter 4 I discuss at length some of the steps taken to ensure internal and external validity, including case selection strategies and methods of analysis. In particular, I have sought to increase generalizability by focusing on a phenomenon that specifically controls for many confounding factors that may explain norm-breaking, including firm-specific advantages such as knowledge, experience and capabilities, as well as the economic and political power of MNE subsidiaries in host countries. Nonetheless, the framework comes with a number of explicit caveats.

To begin with, the processes and effects outlined are presumably most relevant in markets where domestic firms exhibit deep levels of local embeddedness and strongly institutionalized norms prevail. As noted in Chapter 4, Japan constitutes an extreme case study (Yin, 1994) on account of its unique capital markets during the post-war period. In industries and host country markets where institutionalized practices are less strictly enforced, normative barriers to adoption would presumably play a smaller role in innovation, resulting in less differentiation solely based upon foreignness.

To what extent such non-institutionalized markets exist is, of course, a point of debate; it should be stressed that the current study focused upon a time frame when the Japanese banking system was
undergoing significant institutional change and uncertainty, as opposed to an era when norms were clearly defined, yet I still found significant evidence that normative barriers mattered. Nevertheless, the level and degree of overall market institutionalization is an important factor in the applicability of the model.

The underlying characteristic of the industry itself is closely related to this point. In contrast to manufacturing, the financial services industry is based upon intangible products; as a result, normative assumptions and prescriptions are presumably important factors in evaluating the legitimacy and applicability of a specific offering. As opposed to a car or other physical objects, one cannot take syndicated loans or other financial products for a "test drive" (Jonsson, 2002). Financial services can certainly be evaluated based upon technical factors such as return to investment or expected growth; however, the value and importance of these are, to some extent, socially constructed and vary along cultural lines. Norm deviance in the automobile industry or other sectors, for example, may very well look considerably different from the above framework.

Finally, home as well as host country effects may undoubtedly influence the applicability of the framework. In addition to aspects of economic and political power discussed above, local audience perceptions may vary greatly depending upon their general opinion of specific home countries and country-level relationships (Kostova & Zaheer 1999; c.f. Insch & Miller 2005). While I have chosen a setting with the goal of minimizing such host-home country effects, their impact is nonetheless an important element in any larger discussion.

The framework undoubtedly requires further testing and evaluation, across a broad range of industries, countries, and firms. This would particularly serve to highlight different mechanisms and effects, thereby, sharpening the overall construct. These caveats notwithstanding, it nonetheless provides an underlying structure by which to analyze and understand how foreignness impacts norm breaking in host country institutional settings.

11.2 Contributions to the Study of Foreignness

Taken together, the findings and insights expressed through the paradox framework challenge some of the prevailing assumptions about foreignness, while simultaneously opening up new avenues of
research and inquiry. As such, they contribute to the study of foreignness empirically, theoretically, and in terms of methodological approaches.

Foreignness as an Advantage

While previous scholarship has hinted that foreignness may potentially have beneficial effects (Kostova & Zaheer, 1999; Kostova & Roth, 2002), the current research is unique in offering empirical support for this notion. Specifically, the findings suggest that advantages arise not as a result of specific country-of-origin effects but due to the outsider status and weakly embedded position of foreign firms in local institutional settings. While previous scholars have thus suggested individual subsidiaries may benefit from xenophilia or positive country associations (Insch & Miller, 2005), the findings of this study point to advantages that may accrue to all foreign-owned subsidiaries, regardless of their nationality. In particular, the findings suggest these beneficial effects are a result of the expectations and assumptions local audiences apply to foreign entrants.

The insight that foreignness may confer benefits to the MNE is important because it suggests the majority of existing scholarship has been too narrow in assuming a priori that the effects of foreignness are only negative. The results of the study thus do not contradict or reject earlier empirical findings on the liability of foreignness; instead, they encourage an expansion of the current field of inquiry. In particular, they suggest opportunities for relaxing Hymer’s (1960/76) decades old assertions, to investigate instead the other side of the coin of foreignness.

Notably, this opportunity for expansion is not limited to the subfield of literature focusing upon foreignness per se; it also potentially contributes to broader theories of the MNE. As discussed further below, the notion that foreignness may be advantageous has important implications both for the literature on subsidiary evolution and strategy in host country markets, as well as the theory of MNE competitive advantage. Moreover, while some scholars have suggested foreignness is only important during the initial stages of market entry (Gray 1996), this study finds foreignness to be an ongoing and integral aspect of doing business abroad (c.f. Sethi & Guisinger 2002). As such, this work offers an opportunity to expand the study of foreignness in order to impact broader theories of the MNE.
Chapter 11

The Dynamic Effects of Foreignness

As noted, this research finds that foreignness may result in advantages and a disadvantage, and that these effects are also dynamic. While the dynamics of the liability of foreignness have received some attention in previous work (Petersen & Pedersen, 2002; Zaheer & Mosakowski, 1997), these tend to focus upon temporal dynamics, emphasizing how learning and adaptation moderates, over time, the degree of LOF. Conversely, this study finds that the type of effects (i.e. positive and negative), vary as a function of market and institutional change. In this way, the findings contribute to a greater understanding of the dynamic and ever-changing effects of foreignness.

In particular, the framework introduced suggests that foreignness is most likely to be an advantage during early stages of market development in radical and norm-breaking products. At this stage, institutionalized environments have yet to adapt to the new practice, hence granting foreign firms greater leeway, even as normative pressures for isomorphism restrain host country actors. The advantages of foreignness, however, wane as products and markets achieve increased legitimacy and become standardized.

Notably, many studies that confirm the existence of LOFs are conducted in settings characterized by stable norms and institutionalized behaviors. This includes broader industry-based studies (see Miller & Parkhe's 2002 study on banking), mature market segments (see Zaheer & Mosakowski's 1997 study on foreign exchange trading rooms) and regulatory domains (see Mezias' 2002 study of labor lawsuits). The vast majority of these are investigations that are also cross-sectional in nature, with few temporal or dynamic components. The results of this study corroborate these findings, yet they also suggest that the positive effects of foreignness may be more readily observed during periods of institutional contestation and deviance. Notably, these contestations are not limited to macro-level upheavals; they may also include narrower market segments where MNE subsidiaries leverage their foreignness to challenge prevailing practices and norms.

The Mechanisms of Foreignness

By adopting a temporal approach as well as a qualitative research strategy, the current study also expands existing literature by explicating in greater detail the specific mechanisms and
The Paradox of Foreignness

micro-processes that underlie the advantages and disadvantages of foreignness. With the exception of Brannen (2004), few scholars have in fact delved deeper into these mechanisms to verify Hymer's (1960/76) initial assumptions that foreignness is a disadvantage. By focusing on processes and mechanisms, the study also makes a contribution by focusing upon host country actors, including both their assumptions of foreignness and subsequent reactions. While scholars have previously noted the importance of local audience perception (Luo & Mezias, 2002), few researchers have explicitly included these in their studies.

A key insight arising from the emphasis on local actors is that while host country audiences may, indeed, perceive foreign behaviors as norm-breaking or deviant, this does not necessarily result in a lack of legitimacy. By contrast, foreignness itself appears to excuse norm-deviance; as noted in the case studies, both customers and competitors tolerated Citibank's approach to business; however, Shinsei's attempt to employ many of the same tactics resulted in considerable sanctions.

This finding is significant because scholars have generally operated upon the assumption that MNE subsidiary deviance from host country norms results in increased illegitimacy and liabilities of foreignness (Eden & Miller, 2004; Rosenzweig & Singh, 1991). Kostova & Zaheer (1999) have for example suggested that foreignness leads to more stringent legitimacy demands. The finding that foreignness provides greater license to deviate challenges the often repeated assertion that subsidiaries must become isomorphic in order to reduce their liabilities of foreignness. This has direct implications for studies on subsidiary legitimization strategies used in host countries and their effectiveness (Kostova & Zaheer, 1999; Luo et al., 2002). It also has implications for the broader literature on MNE subsidiary localization and adaptation, which has often relied upon DiMaggio & Powell's (1983) notions of isomorphism in its underlying assumptions (Davis, Desai & Francis, 2000; Henisz & Delios, 2001; Robinson, 1994).

More generally, a focus upon host country audiences suggests that, rather than being a source of illegitimacy, foreignness is a classification variable, akin to status or reputation. Similar to status and reputation, foreignness is a function of external audiences' perceptions and beliefs; managers, for example, appear to actively classify firms according to their foreignness, much the same way status and reputation are used as classification mechanisms. Status
and reputation have also been shown to be both enabling and constricting in their impact upon the organization (Leblebici et al., 1991; Phillips & Zuckerman, 2001; Rhee & Haunschild, 2005). In much the same way, foreignness appears to be both an asset and a liability for the MNE subsidiary. Rather than assume that foreignness is either a liability or a source of inconsequential importance (Gray, 1996), the findings suggest scholars need to understand exactly what type of status or reputation foreignness entails.

**Conceptualizing Foreignness as an Organizational Role**

While foreignness can be seen as a classification, the findings of this study indicate foreignness also gives rise to specific internal attributes and external attributions. Moreover, these attributes and attributions differ substantially from those adopted by domestic actors; as a result, they differentiate the position of the MNE subsidiary in the external environment, as well as its opportunities for taking specific actions. Foreignness can, therefore, be seen as assigning a specific role to the MNE subsidiary within the confines of the host country institutional environment.

As discussed in Chapter 2, organizational sociologists have noted that organizations inhabit differentiated roles, positions, and niches in institutionalized environments (Leblebici et al., 1991; Phillips & Zuckerman, 2001; Rao et al., 2003). These roles are prescribed by external audiences (Durand, Rao, & Monin, 2007; Rao, 1994; Zuckerman, 1999) that assign specific norms, boundaries, and expectations. Since these norms, boundaries, and expectations differ, they also lead to heterogeneous constraints and abilities; in other words, some organizations are allowed to take actions that are unavailable to others (Scott, 2001).

Due to the fact that foreignness impacts the images and perceptions of external audiences, it also leads to differentiated roles for the MNE subsidiaries; it, therefore, results in normative boundaries and constraints that differ significantly from domestic actors. Notably, while roles set the organization apart from the norms and requirements of other members of the population, they do not constitute blank checks. The MNE subsidiary, thus, faces an “iron cage” of its own; the crucial insight, however, is that the dimensions of this cage differ from those of domestic actors.
The Paradox of Foreignness

These differences in the normative boundaries and constraints applied to foreign firms are, in turn, directly related to the behavior and actions that MNE subsidiaries undertake in the host country. In the case of Citibank, the specific norms and boundaries accompanying foreignness constrained the bank's ability to become a relationship-based bank, on par with other Japanese competitors. However, these same boundaries and expectations also granted the bank greater freedom to innovate in norm-deviant territory. In other words, the roles resulting from foreignness underlie both the liabilities and advantages of foreignness; they simultaneously constrain and enable the organization's opportunities in the local environment (c.f. Westney, 1993).

Conceptualizing foreignness as a differentiated role contributes to the literature by offering a theoretical construct that enables researchers to encapsulate both the advantages and disadvantages of foreignness, thereby, reconciling these paradoxical effects. Put differently, it affords scholars a theoretical separation between the construct (foreignness) and its effects. Such a separation is crucial for future studies when attempting to investigate both the potential positive and negative consequences of being foreign.

The notion that foreignness results in a differentiated role also offers a conceptual understanding for how MNE subsidiaries interact with host country environments. International business scholars have suggested MNE subsidiaries face pressures for isomorphism and conformity in host country institutional environments (Davis et al., 2000). Empirical findings suggest however that MNE subsidiaries do not conform completely to local milieus (Kostova & Roth, 2002); researchers often describe this situation as one of tension and dual embeddedness (Rosenzweig & Singh, 1991).

A role-based perspective suggests that foreignness, in fact, defuses these tensions, enabling the MNE subsidiary to legitimately occupy a position that balances the two conflicting pressures of home and host country. From this perspective the MNE subsidiary is not embedded in two different environments. Rather, it subscribes to one specific role; the norms and expectations of this role allow the MNE organization to function as a legitimate actor in the host country environment, even as it simultaneously responds to home country demands.

***

289
In light of existing research on foreignness, this study offers a number of contributions in different areas: empirically, it provides evidence that foreignness can, indeed, be an advantage; it highlights the cyclical effects of these advantages and their interaction with the LOFs; and, it also explicates the underlying micro-mechanisms of these interactions, including the important role of host country actor perceptions. From a theoretical perspective, the research demonstrates the value of incorporating the most recent findings from organizational sociology and institutional theory, particularly in terms of organizational heterogeneity and niche roles in institutionalized environments (c.f. Kostova et al., 2008). Taken together, these findings strongly suggest that the unit of analysis should be broadened to include the effects of foreignness, as opposed to simply its liabilities, as well as the underlying construct of foreignness itself. Finally, this work exhibits both the need, and advantage, of employing qualitative and longitudinal research designs to investigate these important questions.

11.3 Theoretical Implications for the Study of the MNE

As argued in Chapter 1, foreignness is an integral and defining attribute of the multinational enterprise. As such, the findings presented have potential implications not only for the sub-stream of literature focusing on LOFs, but also more general theories of subsidiary evolution and action, MNE competitive advantages, and the influence of multinational enterprises upon host country institutional settings. In this section I discuss some of the implications of the findings in relation to these streams of literature.

Foreignness and the Evolutionary Trajectory of Subsidiary Capabilities

To begin with, the notion that foreignness results in a specific role has potential implications for our understanding of how MNE subsidiaries evolve in host country environments. As noted in Chapter 9, the internal attributes and external attributions that set Citibank apart from domestic competitors were not automatically applied to the subsidiary upon market entry; rather, they developed over time through an evolutionary process of learning and adaptation. In particular, the bank developed internal capabilities and strategies, as
The Paradox of Foreignness

well as external images that were customized to fit its foreign position in the local market.

At first glance, the notion that MNE subsidiaries adapt their capabilities, skills, and routines to fit local conditions is hardly surprising. International business scholars have provided substantial evidence that MNE subsidiary capabilities evolve through local entrepreneurial initiatives, often in direct response to host country market opportunities and threats (Birkinshaw, 1997; Birkinshaw & Hood, 1998; Birkinshaw, Hood, & Jonsson, 1998).

The current study, however, expands upon these insights in two important ways. To begin with, existing research has focused primarily upon the market-based drivers of MNE subsidiary evolution; from this perspective, MNE subsidiary capabilities and actions are a result of the opportunities that stem from local market imperfections and the subsidiary's ability to take advantage of these by transferring firm-specific capabilities and knowledge from other units within the MNE network (Kogut & Zander, 1993).

By adopting an organizational approach to foreignness, this study views the MNE subsidiary not only as an economic actor; it also sees it as a social entity, interacting with the host country institutions (Rosenzweig & Singh, 1991). Scholars have previously noted that institutional environments play an important role in the evolutionary process of organizations (c.f. Barney & Zajac, 1994); it would then stand to reason that MNE subsidiary capabilities similarly evolve not only in reaction to market factors, but also as a result of the norms, boundaries, and values inherent in the local institutional context (c.f. Regnér & Zander, 2008). In particular, the MNE subsidiary's internal capabilities and practices may evolve in response to the specific norms, boundaries and expectations it faces as a result of being foreign.

Secondly, the findings propose that because of its foreignness, the norms and boundaries applied to the MNE subsidiary differ from those attached to its domestic competitors. As a result, the MNE subsidiary's internal capabilities, routines and practices evolve along a different trajectory than those of host country firms. Consider, for example, the internal attributes of Citibank and IBJ/Mizuho: because it was excluded from the traditional main bank system, Citibank actively eschewed social norms and relationships in its internal routines and practices, emphasizing instead technical factors and unique product innovation. IBJ/Mizuho, on the other hand, reaped significant benefits from the main bank system; as result, its internal capabilities and
skills evolved in order to service and maintain these ties, specifically by offering consistent and well-known products and services.

These differences between Citibank and its Japanese competitors could certainly be put down to the transfer of tacit knowledge from headquarters and other more experienced subunits in the MNE network. While this process undoubtedly played a part, it is important to remember that Japanese banks did, in fact, have both the capabilities and experience to engage in loan syndication as a result of their involvement in mature markets such as London, New York, and Hong Kong; hence, knowledge transfer capabilities cannot directly explain the differences. Moreover, it should also be emphasized that Citibank Japan's relative emphasis upon technical factors and innovation went further than domestic actors, extending even beyond that of its home-country organization. This insight is supported by earlier research: Zaheer (1995) finds, for example, that the best performing foreign trading rooms in Tokyo were more market-oriented than their siblings in the home country.

From this perspective, Citibank's ability to introduce new product innovations that challenged the status quo was not primarily a result of the transfer of firm-specific capabilities from the home country. Rather, it was due to the existence of internal routines and an external image that had evolved and been refined specifically in response to the opportunities and threats that arose due to its foreignness. This notion also finds support in recent research: in a study of foreign firms operating in China, Luo (2002) finds that, in host country environments characterized by high social and cultural complexity (i.e. where foreignness is accentuated), capability building is more effective than capability exploitation. In other words, foreign firms did better by developing specific skills and assets suited to the local context, as opposed to transferring and attempting to leverage existing capabilities. Foreignness can thus be seen as an initial condition (c.f. Cockburn et al., 2000), pushing the subsidiary to develop traits and characteristics that suit its position and role in the overall institutional and social context (Regnér & Zander, 2008).

The combined insight of these findings is that foreignness plays a crucial role in the evolution of MNE subsidiary capabilities. This is important because international business scholars have primarily seen subsidiary evolution as driven by the transfer of tacit knowledge and skills from the home country (Birkinshaw & Hood, 1998; Kogut & Zander, 1993). While knowledge transfer obviously provides the basis
for local capabilities, its subsequent development and refinement is intimately connected with the subsidiary’s foreign position in the host country market.

**The Strategic Implications of Foreignness**

Scholars have long recognized that organizational capabilities, routines, and practices play a crucial part in the formulation and formation of firm strategy (Barney & Zajac, 1994; Levinthal & Myatt, 1994; Teece, Pisano, & Shuen, 1997; Zajac, Kraatz, & Bresser, 2000); given that foreignness differentiates the evolutionary trajectory of these capabilities, an important question is: *what effect might these have upon MNE subsidiary strategies and behaviors in local markets?*

The framework introduced in Figure 11-1 suggests MNE subsidiaries develop capabilities attuned to innovation and norm breaking. This evolutionary trajectory is both a result of foreignness (i.e. the liability of being foreign makes it difficult to enter existing markets) and a subsequent effect (as the firm emphasizes innovation and uniqueness, its internal capabilities and outsider role is reinforced). MNE subsidiary strategies hence come to mirror their internal capabilities and external market image. Citibank Japan, for example, largely ignored established market segments where it knew foreignness was a liability; instead, it actively sought to develop unique products in niche markets that would be difficult for domestic firms to enter and where Citi had license to innovative and diverge from existing practices. The capabilities that evolve in response to foreignness, therefore, appear to promote norm-breaking strategies by encouraging experimentation and innovation building, while simultaneously discouraging entry into existing markets.

The notion that foreignness encourages norm-breaking and innovation is interesting because it augments existing arguments for why MNEs may engage in exploration in host country markets (c.f. Luo, 2002). While the majority of research suggests innovation by MNEs is driven by the transfer of firm-specific knowledge and technologies from the home country or sister subunits in other locations, the above insights suggest it may also be a result of subsidiary-specific capabilities that develop specifically in response to foreignness. From this perspective, innovation strategies are adopted not only in response to foreignness; they also evolve internally as a natural fit with both the
advantages and disadvantages inherent to being a foreign firm (c.f. Zajac et al., 2000).

Notably, the framework introduced in Figure 11-1 suggests a focus upon innovation and norm-breaking by MNE subsidiaries is a result not only of internal capabilities; it may also be enabled by external images and perceptions. In particular, foreignness may result in lower normative barriers to norm-breaking and possibly even active encouragement of deviant action as local actors come to see foreign firms as boundary breakers and pioneers. Furthermore, while local audiences may accept foreign firms' normative digressions, local firms - both multinational and purely domestic - may be relatively more constrained by pressures for isomorphism. From this perspective, foreignness can be seen as an inimitable asset, which mitigates imitation and direct competition by increasing social complexity (Barney 1991).

The value of this asset is exemplified in the case of Shinsei; although the bank had the necessary internal capabilities to introduce loan syndication, its actions were nonetheless constrained by local audience perceptions of the bank as purely Japanese. Notably, this advantage is most pronounced in innovative and emerging product markets; the social complexity of foreignness has few benefits (but indeed disadvantages) when applied to existing markets where domestic actors are strong incumbents.

If foreignness increases social complexity by assigning heterogeneous expectations to different actors, it potentially also results in competitive opportunities for the MNE subsidiary. Put differently, MNE subunits have the potential to strategize on heterogeneous norms (Jonsson & Regnér, 2009), taking advantage of expectations, images, and assumptions unique to being foreign. Foreignness, thus, results in an uneven playing field: widening certain avenues of action while restricting others. The successful subsidiary may subsequently be one that actively uses these heterogeneous norms and expectations to its advantage, as opposed to simply mitigating or reducing its effects.

The opportunity to strategize on foreignness further suggests an active approach by MNE subsidiaries. For example, Citibank and most of the other foreign firms discussed did little to adapt to local norms and practices; in fact, several of them explicitly emphasized their separate identity, even to the point of discouraging customer business when the underlying service did not match their specific role. By actively managing their foreign identities through specific types of
behavior and signals, MNE subsidiaries may be able to leverage external expectations and assumptions to construct market opportunities in the host country (Rindova & Fombrun, 1999).

Notably, successfully managing and emphasizing the role of foreignness may enable subsidiaries to challenge existing norms and practices without subsequent loss of legitimacy; Citibank was able to both ignore common practices and introduce radical new services without facing major sanctions from host country audiences. Scholars have previously noted that firms in general face an inherent tension in differentiating themselves from competitors, while simultaneously maintaining legitimacy and similarity (c.f. Porac, Thomas & Baden-Fuller 1989). Deephouse, for example, has introduced the notion of strategic balance, suggesting that firms should "be as different as legitimately possible" (1999:147). From this perspective, foreignness can be thought of as a strategic resource that shifts the "point of balance" in favor of greater differentiation without commensurate loss of legitimacy. In other words, the images and perceptions that result from foreignness may provide the MNE subsidiary license to break boundaries that are beyond the purview of domestic firms that must maintain greater balance between differentiation and isomorphism.

Foreignness thus potentially leads to a greater emphasis upon innovation and norm breaking, both by impacting internal organizational capabilities, and external images and perception. Moreover, because foreignness is sustained and, indeed, reinforced into a specific role, these innovation and norm-breaking processes are ongoing; as noted, Citibank continued to pioneer new products and markets even after 50 years of operation in Japan. One result of this "institutionalized innovation" process may be that foreign firms become especially adept at dealing with and instigating punctuated evolutionary change (Tushman and Romanelli, 1985). Burgelman (1991) finds that firms that habitually experiment and explore new opportunities are better positioned to respond to discontinuous transformation. Foreignness may thus position MNE subsidiaries at the very cusp of change processes by forcing them to constantly engage in exploration and creative strategy-making on the fringe of institutional environments (c.f. Leblebici et al., 1991, Regnér, 2003, 2005).

Conversely, domestic organizations heavily embedded in existing norms and behaviors may have greater difficulty in initially making the
leap to new technologies, processes or products. Indeed, the findings from the case studies suggest that, while the introduction of loan syndication was a radical novelty for Japanese banks deeply embedded in the local environment, foreign firms geared for perpetually expanding into new segments found the task much less daunting. By driving internal capability evolution and strategy towards the boundaries of existing norms and practices, foreignness potentially gives MNE subsidiaries an advantage in introducing radical and institution-changing behavior in host country institutional environments.

**Foreignness and MNE Competitive Advantage**

While foreignness has implications for subsidiary capabilities and strategies, its effects may also potentially be extrapolated to the level of the MNE itself. In particular, scholars have previously argued that multinationality serves as a key advantage for the MNE, enabling the organization to transfer rent-generating resources across countries (Tallman & Li, 1996); to exploit opportunities in new markets by applying core capabilities and assets (Buhner, 1987; Dunning, 1988); and, to construct global value chains (Kogut, 1985). To realize these potential advantages of multinationality, however, the MNE not only requires access to specific skills, technologies, and knowledge, it must also be able to implement these in the local market. A rent-generating asset or resource transferred from the home country is, thus, of limited use to the multinational if it cannot be put to effective use in the host country.

This study finds that foreignness may enable the MNE subsidiary to take actions unavailable to host country actors. From this perspective, foreignness may contribute to the advantage of multinationality by enabling the MNE to deploy assets and resources in ways beyond the purview of other multinationals from the host country. While multinationality itself increases the array of resources to which MNEs have access, foreignness thus potentially impacts the way in which these are subsequently deployed in various locations. This was certainly the case in loan syndication; while both Citibank and IBJ had the necessary knowledge and capabilities necessary to introduce loan syndication, IBJ/Mizuho’s effective implementation of these in its home country was inhibited by institutional pressures for isomor-
phism. Thanks to its foreignness, Citibank felt none of these constraints.

From this perspective, foreignness is not only of concern for the individual MNE subsidiary; it potentially plays an important part in overall MNE strategy. This might also hint at why foreign MNEs can introduce novel practices in the home markets of rival international firms, despite the fact that these competitors often have similar levels of knowledge and skills in the same product area.

It should of course be noted that, while foreignness enables certain actions, it also constrains others. As noted previously, foreignness is not a blank check to take any kind of action; in many cases MNEs are, indeed, unable to deploy their firm-specific capabilities and assets specifically because of their foreignness. The central insight is that foreignness is a double-edged sword, conferring both advantages and disadvantages. What is crucial for the MNE is learning how to leverage these effects in the correct way.

MNEs as Institutional Change Agents in Host Countries

By emphasizing the interaction between MNE subsidiaries and local institutional settings, the findings from this study also contribute to our understanding of how MNEs impact the institutions of host countries. Over the past decade or so, institutional change has emerged as one of the key research themes in organization theory (see for example Goodrick, 2002; Greenwood & Hinings, 1996; Greenwood et al., 2002; Powell & DiMaggio, 1991; Sherer & Lee, 2002; Townley, 2002). In particular, a number of scholars have focused upon how individual actors can provide the impetus and spark for larger institutional transformations (Beckert, 1999; Casile & Davis-Blake, 2002; Fligstein, 1996, 1997; Greenwood & Suddaby, 2006; Leblebici et al., 1991; Maguire, Hardy, & Lawrence, 2004; Zucker & Darby, 1997).

Somewhat surprisingly, scholars in the field of international business have been largely absent from this stream of research, despite the historical emphasis upon spillover effects in research on the MNE (Blomström, 1989; Blomström & Kokko, 1998; Görg & Strobl, 2001; Globerman, 1979). While economists, sociologists and business historians have focused upon the effects of the MNE from macro-level perspective (Bernstein & Cashore, 2000; Djelic & Quack, 2000; Garrett & Lange, 1995), there is less research on the micro-level processes by
which MNEs and their subunits instigate and influence host country institutional change.

The findings from this study contribute to this line of inquiry by highlighting both the possibilities and constraints that MNEs face in enacting host country institutional change. In particular, the findings suggest foreignness enables the pioneering of new products and innovation, regardless of differences in underlying capabilities between domestic and non-domestic actors. They also indicate that the rate of diffusion differs depending upon the position of actors in the value chain; even as local clients and customers accept the new foreign innovation, domestic competitors might be constrained in their ability to do so - both due to internal and external opposition. This mechanism could serve to explain earlier empirical observations that technologies and capabilities spill over vertically, as opposed to horizontally (Sjöholm & Lipsey, 2005).

The findings also suggest that, while foreign firms may be pioneers, they are unable to sustain a larger diffusion of the practice on their own. This may, instead, require active legitimization efforts by local actors who are centrally embedded in the host country economy and enjoy stronger ties to key regulators, institutions, and standard-setting bodies (Casile & Davis-Blake, 2002; Fligstein 1996, 1997; Garud, Jain & Kumaraswami 2002; Lawrence 1999; Lawrence, Hardy & Phillips, 2002).

Because local actors play a key role in the institutionalization process, however, the initial product may also evolve into a new format as domestic constituents reframe the practice to fit their pre-existing norms and practices (c.f. Glynn & Abzug, 2002). As a result, the end effect may not necessarily be synonymous with the initial introduction by the foreign firms. Notably, this process of reframing and metamorphosis may take place even during periods of intense institutional upheaval and change, as exemplified in the case of loan syndication’s introduction during the height of Japan’s financial crisis.

11.4 Implications for Research on Japan

In addition to the field of international business, the study also contributes to the empirical literature on institutional change in Japan. Over the past 10 years, numerous scholars have analyzed the economic and political changes occurring in Japan as a result of the
economic stagnation of the 1990s (see for example Ahmadjian & Robbins, 2005; Ahmadjian & Robinson, 2001; Blomström, Corbett, Hayashi, & Kashyap, 2003; Gao, 2001; Sako & Sato, 1997; Vogel, 2006; Whittaker & Cole, 2006; Witt, 2006). This vast array of work has variously focused on government and politics, macroeconomic policy, industry de-regulation, and work-specific practices.

Comparatively, little analysis has been focused thus far on how Japanese firms and organizations respond to foreign influences and ideas operating in their midst. Given that increased inward-FDI and a more globalized economy are crucial elements in almost any discussion of Japan's changing economy, an understanding of how domestic organizations learn, benchmark, and imitate foreign entrants would appear crucial.

The findings from this study contribute to this literature by explicating how Japanese banks in particular evaluate and view foreign practices. Furthermore, it explicates on a micro-level the constraints - both internal and external - that often prevent domestic Japanese actors from adopting foreign practices, hence, reducing the pace of reform sought by so many outside observers. The study also demonstrates how domestic banks were eventually able to incorporate foreign practices within the existing system, defusing potential radical reform into incremental and convergent changes (c.f. Vogel, 2006). In terms of the ongoing debate regarding if and how Japanese economic and financial institutions should take on western-style practices (Dore, 2000), the study reinforces previous findings that emphasize the importance of societal and institutional contexts in any adoption process (Westney, 1987).

11.5 Implications for Managers

Based on the preceding discussions, the findings from the study also have some potentially important implications for managers. Central to these is not only the notion that foreignness can be beneficial, but that managers potentially have the opportunity to actively strategize on this benefit. As noted previously, Citibank sought to emphasize its unique position and niche both by encouraging a culture of innovative thinking, and by actively encouraging customers to use traditional banks for non-unique products. While common advice to subsidiary managers may often emphasize the need for learning local cultures,
language and norms, the findings reported here point by contrast to the importance of not getting too deep into the local culture, or else risk losing some unique competitive advantages.

This is not to say that managers should completely ignore local market practices or assume they have carte-blanche in their activities. Citibank’s success was based not only on a focus on unique innovation but also on long-term relationships. Rather, the key is to strike a balance, to be seen as appropriate enough to do business with, yet unique enough to differentiate oneself from local competitors. As David Larsson, a former Citibank Japan employee, noted: “...you wanted to have a share of the wallet, but not too much of the wallet.”

The findings suggest moreover that striking this balance is a function of learning and constant revamping of internal skills, routines and capabilities; it should be emphasized for example that Citibank Japan has been around for over 100 years; hence they have had plenty of time to refine their local role in the market.

11.6 Limitations and Avenues for Future Research

As the title of this work suggests, foreignness is not only complex; it is also paradoxical. Although I have sought to delve into the conceptual black box, many questions remain, and perhaps just as many new ones have been raised. The most pressing of these is arguably the conceptualization of foreignness: as discussed in Chapter 2, the central focus of this study has been upon the effects of being foreign; hence, I purposely sought to avoid in-depth discussions of foreignness itself at the outset of the research. Indeed, this somewhat simplified approach to foreignness is in line with pre-existing work.

As the subsequent analysis showed, however, foreignness is a multi-dimensional construct, defined by external observers and internal employees alike, varying over time and space. Moreover, the complexities of the international business environment often make it difficult, if not impossible, to accurately identify and classify the level of foreignness of a particular organization. An important avenue for future research, already pioneered in earlier works by Brannen (2004), Calhoun (2002), Luo and Mezias (2002) and Sethi and Guisinger (2002) is to craft a more detailed definition of foreignness. Such a definition would hopefully incorporate external actors’ perceptions, as well as objective traits and characteristics of the organization.
However, such an emphasis comes with a warning: any analysis must be careful not to deconstruct foreignness into too many individual parts; otherwise, we run the risk of not being able to see the forest for all the trees.

As noted earlier, the current dissertation limits the empirical inquiry to one innovation in a specific industry. This research design has been purposely chosen as it allowed me to dig into specific mechanisms in greater detail. Of course, the drawback is that it places limits upon external validity and generalizability; as a result, the findings and framework may be limited to service-oriented firms or perhaps even financial services and bank-lending specifically. A second avenue for future research is, therefore, to expand upon these initial results in order to encompass multiple industries. Drawing upon the findings of this study, scholars can hopefully develop questionnaires for large-scale samples, covering multiple countries. As a way of understanding the role of foreignness, such larger quantitative studies might, for example, compare internal and external attributes of MNE subsidiaries in relation to both host country actors and home country sister subsidiaries.

A third avenue of possible future research is to incorporate foreignness into our analysis of MNE subsidiary evolution and strategy formation/formulation. While I have suggested foreignness plays an important part in these processes, the findings of the study are far from definitive. Future research could potentially focus greater attention upon how managers - both domestic and non-domestic - understand, interpret, and act regarding foreignness. This could be done by employing methods and theories from research on organizational and managerial cognitions (Peteraf & Shanley, 1997; Porac & Thomas, 1990; Porac, Thomas, Wilson, Paton, & Kanfer, 1995; Zajac & Bazerman, 1991): a field that has as yet to make substantial strides into international business.

The preliminary findings would also do well to be evaluated through a closer look at how capabilities develop over time in MNE subsidiaries. This research could particularly take a longitudinal and qualitative approach to understand in greater detail the specific mechanisms behind these processes.

Finally, the results cast some initial light upon the role of MNEs as institutional entrepreneurs and change agents in host countries. As noted above, the MNE is largely missing from contemporary studies on institutional change and institutional entrepreneurship. Given the
central role of MNEs in today’s globalized economy, it would seem obvious to me that this is an area where students of the MNE have the potential to make important theoretical and empirical contributions.

11.7 Concluding Thoughts

Why do we study foreignness? Why is it important? In a globalized and supposedly flat world, does it really matter? These might seem simple questions, yet they are ones that I have been asked several times during the path of this research project.

I would suggest that foreignness does, indeed, matter because it defines what it means to be a multinational firm, perhaps more so than any other quality. MNEs have often been described as distinctive due to their complexity (Ghoshal & Bartlett, 1990); while undoubtedly true, this characteristic also applies to many large diversified domestic-only organizations in their own right. Similarly, geographic distance is not in and of it itself a defining condition of the multinational. A Russian firm with subsidiaries in Moscow and Vladivostok faces far greater distance costs than a French company with a subunit in Macedonia. Multinational enterprises have also been singled out for their cultural heterogeneity; yet in a world where nations are increasingly multicultural as a result of immigration and globalization, this facet alone does not necessarily differentiate the MNE from domestically oriented firms.

What does make the multinational enterprise unique is having operations in multiple country locations (Westney & Zaheer 2001); notably, this is the case even if it consists of only two different country locations (as in the case of The Hartford Group, discussed in the pilot study). In any such situation, the subunit is by definition foreign, much like you or I are foreigners even if only visiting our neighboring countries. Hence, foreignness is a defining attribute of the multinational enterprise.

This insight was, indeed, one of the key elements in Hymer's (1960/76) original work that served to form the basis of international business as an academic discipline, distinct from international economics’ emphasis on comparative national advantages in explaining FDI. Observing a world far less complex than ours, Hymer emphasized the disadvantages and negative impacts of being foreign. Hence, Hymer's world was not flat but tilted in one direction, such that
The Paradox of Foreignness

any other market than that of the home country was perceived as
difficult and uncertain. As previously emphasized, this study does not
argue that foreignness is unproblematic, yet it does suggest
foreignness is an attribute with potentially positive attributes.

This notion is important because as several scholars have argued
(Eden & Miller, 2004; Zaheer 1995), Hymer’s (1960/76) original
insights underlie many of the fundamental contributions in
international business theory on a wide range of topics, including
incremental internationalization processes into distant markets
(Johanson & Vahlne, 1977), entry-mode strategies for mitigating
cultural differences (Kogut & Singh, 1988), responsiveness to local
pressures for adaptation and isomorphism (Ghoshal & Bartlett, 1990;
Rosenzweig & Singh 1991), and the crucial role of firm-specific
All of these build implicitly or explicitly upon the notion that foreign
markets entail extraordinary challenges for the MNE.

I do not mean to suggest that these seminal works need to be
questioned or re-evaluated; rather, I wish to make the argument that
understanding foreignness and its effects is important beyond the
specific stream of literature that focuses upon LOFs. In particular, a
more complete understanding of foreignness has the potential to
re-energize and deepen many of the core findings in international
business theory. By highlighting the potential positive effects of
foreignness, their underlying mechanisms, and the linkage to the
liabilities of foreignness, the current study has aimed to make a
modest contribution to this end.
Appendix 1: Background data on case organizations

Table A-1: Citibank Japan Organizational Data

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>136.8</td>
<td>133.3</td>
<td>150.2</td>
<td>219.9</td>
<td>175.5</td>
</tr>
<tr>
<td>Net Profit</td>
<td>19.2</td>
<td>-11.6</td>
<td>20.5</td>
<td>18.9</td>
<td>24.6</td>
</tr>
<tr>
<td>Total assets</td>
<td>7,383.2</td>
<td>5,888.8</td>
<td>5,841.0</td>
<td>6,529.0</td>
<td>6,482.3</td>
</tr>
<tr>
<td>ROA</td>
<td>0.26%</td>
<td>-0.20%</td>
<td>0.35%</td>
<td>0.29%</td>
<td>0.38%</td>
</tr>
<tr>
<td>Number of employees*</td>
<td>n.a.</td>
<td>1,381</td>
<td>1,402</td>
<td>1,545</td>
<td>1,647</td>
</tr>
<tr>
<td>CEO Nationality</td>
<td>United States</td>
<td>United States</td>
<td>United States</td>
<td>United States</td>
<td>United States</td>
</tr>
<tr>
<td>Number of domestic branches</td>
<td>na</td>
<td>32</td>
<td>29</td>
<td>31</td>
<td>38</td>
</tr>
</tbody>
</table>


Figure A- 1: Organizational Structure of Citibank Japan
### Table A-2: Mizuho Corporate Bank Organizational Data

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>1,422.9</td>
<td>1,378.8</td>
<td>1,654.3</td>
<td>1,937.3</td>
<td>2,421.1</td>
</tr>
<tr>
<td>Net Profit</td>
<td>296.4</td>
<td>340.2</td>
<td>486.6</td>
<td>323.1</td>
<td>-88.8</td>
</tr>
<tr>
<td>Total assets</td>
<td>59,921.7</td>
<td>55,952.7</td>
<td>62,208.6</td>
<td>66,111.5</td>
<td>71,563.8</td>
</tr>
<tr>
<td>ROA</td>
<td>0.5%</td>
<td>0.6%</td>
<td>0.8%</td>
<td>0.5%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Number of employees*</td>
<td>27,056</td>
<td>23,291</td>
<td>n.a.</td>
<td>47,000</td>
<td>49,000</td>
</tr>
<tr>
<td>CEO</td>
<td>Hiroshi Saito</td>
<td>Hiroshi Saito</td>
<td>Hiroshi Saito</td>
<td>Hiroshi Saito</td>
<td>Hiroshi Saito</td>
</tr>
<tr>
<td>Nationality</td>
<td>Japan</td>
<td>Japan</td>
<td>Japan</td>
<td>Japan</td>
<td>Japan</td>
</tr>
<tr>
<td>Number of domestic branches</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Number of foreign subsidiaries</td>
<td>57</td>
<td>57</td>
<td>57</td>
<td>65</td>
<td>68</td>
</tr>
<tr>
<td>Country locations</td>
<td>26</td>
<td>26</td>
<td>28</td>
<td>29</td>
<td>29</td>
</tr>
</tbody>
</table>


Note: Fiscal year ends in March of the following year; revenue, net profit and total assets are in billion JPY

* Number of employees is worldwide for the entire Mizuho Financial Group, including Mizuho Corporate Bank, Mizuho Bank, Mizuho Trust Bank & Mizuho Securities.

### Figure A-2: Mizuho Financial Group Organizational Structure

- Shareholders
- Corporate auditors
- Board of Directors
- Nominating committee
- Compensation committee
- Internal audit committee
- Executive Management committee
- CEO
- Business Policy Committee
- Mizuho Trust Bank
- Mizuho Securities
- Mizuho Corporate Bank
- Mizuho Bank
Table A-3: Shinsei Organizational Data

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues</th>
<th>Net Profit</th>
<th>Total assets</th>
<th>ROA</th>
<th>Number of employees</th>
<th>CEO</th>
<th>Number of branches</th>
<th>Number of subsidiaries</th>
<th>Country Locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>123.5</td>
<td>66.4</td>
<td>6,525.3</td>
<td>1.0%</td>
<td>2,055</td>
<td>Masamot</td>
<td>17</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>2004</td>
<td>177.8</td>
<td>67.4</td>
<td>7,460.0</td>
<td>0.9%</td>
<td>2,122</td>
<td>Thierry Porté</td>
<td>34</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>2005</td>
<td>273.4</td>
<td>76.0</td>
<td>8,990.6</td>
<td>0.8%</td>
<td>5,407</td>
<td>Thierry Porté</td>
<td>39</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>2006</td>
<td>256.3</td>
<td>-60.9</td>
<td>10,121.3</td>
<td>-0.6%</td>
<td>5,364</td>
<td>Thierry Porté</td>
<td>39</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>2007</td>
<td>262.6</td>
<td>60.1</td>
<td>11,181.7</td>
<td>0.5%</td>
<td>5,245</td>
<td>Thierry Porté</td>
<td>43</td>
<td>4</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Shinsei Annual Reports, accessed through http://www.shinseibank.com

Note: Fiscal year ends in March of the following year; revenue, net profit and total assets are in billion JPY.

Figure A-3: Shinsei Bank Organizational Structure
# Appendix 2: List of interview questions

<table>
<thead>
<tr>
<th>Question</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  When and why was loan syndication first introduced into Japan? How has it evolved? Why was loan syndication not prevalent earlier?</td>
<td>General overview</td>
</tr>
<tr>
<td>2  When and why did your bank first begin loan syndication practices? What are the strategic benefits for entering loan syndication?</td>
<td>General overview</td>
</tr>
<tr>
<td>3  Please describe a typical loan syndication deal.</td>
<td>Loan syndication process</td>
</tr>
<tr>
<td>4  What roles do relationship managers, sales people and originators on your team have during a syndication loan process?</td>
<td>Loan syndication process</td>
</tr>
<tr>
<td>5  What skills are necessary for loan syndication? Where did the individuals on your team learn these?</td>
<td>Internal aspects of adoption</td>
</tr>
<tr>
<td>6  What inter-organizational changes (for example in terms of routines, systems and structures) were necessary in order to develop a loan syndication business?</td>
<td>Internal aspects of adoption</td>
</tr>
<tr>
<td>7  What steps were involved in adopting loan syndication in your team?</td>
<td>Internal aspects of adoption</td>
</tr>
<tr>
<td>8  How does loan syndication compare with other lending practices and services offered by your bank (for example in terms of size, scope, popularity among customers, etc)? What are the pros and cons of loan syndication vs. other lending practices?</td>
<td>Internal aspects of adoption</td>
</tr>
<tr>
<td>9  How was loan syndication perceived internally among your staff before and during its introduction? Was there any resistance to introducing the practice? If so, how did management overcome this resistance?</td>
<td>Internal aspects of adoption</td>
</tr>
<tr>
<td>10 How did external customers react to the introduction of loan syndication? Were they skeptical? If so, how did relationship managers and others convince them?</td>
<td>Customer</td>
</tr>
<tr>
<td>11 Was there a difference between old and new customers in their approach to loan syndication?</td>
<td>Customer</td>
</tr>
<tr>
<td>12 Were there any customers unwilling to adopt loan syndication as a lending practice and who prefer &quot;old-style&quot; bilateral lending relationships?</td>
<td>Customer</td>
</tr>
<tr>
<td>13 How did potential investors initially respond when you entered the loan syndication industry?</td>
<td>Investors</td>
</tr>
<tr>
<td>14 Who are the primary investors and participants when you are bookrunner and agent for a loan syndication deal?</td>
<td>Investors</td>
</tr>
<tr>
<td>15 How active are you in the loan trading market (i.e. In the buying and selling of loan tranches)? Please describe the process when an asset is disposed of or traded to a third party.</td>
<td>Loan trading process</td>
</tr>
<tr>
<td>16 How do customers react when you dispose or trades their loans to a 3rd-party?</td>
<td>Customer</td>
</tr>
</tbody>
</table>
### Appendix 2

<table>
<thead>
<tr>
<th>Q.</th>
<th>Question</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>How important are relationships vs. competitive pricing in setting up loan syndications with customers?</td>
<td>Loan syndication process</td>
</tr>
<tr>
<td>18</td>
<td>Were you involved in the discussions surrounding the creation of the JSLA? Are you currently involved in the JSLA?</td>
<td>External aspects of adoption</td>
</tr>
<tr>
<td>19</td>
<td>What steps have you taken to educate external constituents (i.e. investors, customers, regulators, etc) about loan syndication and loan trading?</td>
<td>External aspects of adoption</td>
</tr>
<tr>
<td>20</td>
<td>How did external third parties (e.g. the media, regulators) respond when you initially entered the loan syndication business?</td>
<td>External aspects of adoption</td>
</tr>
<tr>
<td>21</td>
<td>Who are your main competitors? Did their adoption of loan syndication influence your decision to enter the loan syndication market?</td>
<td>Competitors</td>
</tr>
<tr>
<td>22</td>
<td>How did your main competitors react when you entered the loan syndication market?</td>
<td>Competitors</td>
</tr>
</tbody>
</table>
# Appendix 3: List of interviewees

<table>
<thead>
<tr>
<th>Respondent position</th>
<th>Company</th>
<th>Interview time (minutes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager, Corporate Business Division XI</td>
<td>Aozora</td>
<td>50</td>
</tr>
<tr>
<td>Deputy Asst Manager, Corporate Business Division XI</td>
<td>Aozora</td>
<td>50</td>
</tr>
<tr>
<td>Managing Director (retired)</td>
<td>Bank of Japan</td>
<td>120</td>
</tr>
<tr>
<td>Senior Manager, Financial Regulations Department</td>
<td>Bank of Japan</td>
<td>90</td>
</tr>
<tr>
<td>Analyst, Financial Regulations Department</td>
<td>Bank of Japan</td>
<td>90</td>
</tr>
<tr>
<td>Co-head of Global Syndication, Citibank Japan</td>
<td>Citibank</td>
<td>60</td>
</tr>
<tr>
<td>Director, Global Loans</td>
<td>Citibank</td>
<td>60</td>
</tr>
<tr>
<td>Vice President, Investment Banking</td>
<td>Citibank</td>
<td>40</td>
</tr>
<tr>
<td>Former Branch Manager and Vice President</td>
<td>Citibank</td>
<td>60</td>
</tr>
<tr>
<td>Senior manager, Risk Management</td>
<td>Citibank</td>
<td>40</td>
</tr>
<tr>
<td>Former CEO and Country Manager</td>
<td>Citibank</td>
<td>20</td>
</tr>
<tr>
<td>Director, Head of Global Loans Capital Markets, Corporate Finance</td>
<td>Citibank</td>
<td>60</td>
</tr>
<tr>
<td>Managing Director, former Japan CEO and Country Manager</td>
<td>Citibank</td>
<td>35</td>
</tr>
<tr>
<td>Managing Director, Head of Corporate Finance/Head of Securitization</td>
<td>Citibank</td>
<td>60</td>
</tr>
<tr>
<td>Former Vice President, Head of Loans and Capital Structuring</td>
<td>Citibank</td>
<td>130</td>
</tr>
<tr>
<td>Former Director, Head of Global Loans Capital Markets</td>
<td>Citibank</td>
<td>45</td>
</tr>
<tr>
<td>Former Managing Director, Head of Global Capital Markets Asia</td>
<td>Citibank</td>
<td>15</td>
</tr>
<tr>
<td>Vice President, Loans and Capital Structuring</td>
<td>Citibank</td>
<td>45</td>
</tr>
<tr>
<td>Vice President, Global Loans Capital Markets</td>
<td>Citibank</td>
<td>60</td>
</tr>
<tr>
<td>Manager, Actuarial Department</td>
<td>CS Life</td>
<td>40</td>
</tr>
<tr>
<td>Deputy General Manager Corporate Finance Department 1</td>
<td>Daiwa Securities SMBC</td>
<td>60</td>
</tr>
<tr>
<td>Deputy General Manager Corporate Finance Department 1</td>
<td>Daiwa Securities SMBC</td>
<td>60</td>
</tr>
<tr>
<td>Manager, Corporate Finance Department 1</td>
<td>Daiwa Securities SMBC</td>
<td>60</td>
</tr>
<tr>
<td>Japan Representative, General Manager</td>
<td>DBS</td>
<td>30</td>
</tr>
<tr>
<td>Partner</td>
<td>Deutsche Bank</td>
<td>60</td>
</tr>
<tr>
<td>Manager, Investment Banking</td>
<td>Deutsche Bank</td>
<td>45</td>
</tr>
<tr>
<td>Vice President, Global Syndication</td>
<td>Deutsche Bank</td>
<td>60</td>
</tr>
<tr>
<td>Vice President, Securitization</td>
<td>Goldman Sachs</td>
<td>170</td>
</tr>
<tr>
<td>Role</td>
<td>Company/Division</td>
<td>Years</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>-----------------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Vice President, Treasury Department</td>
<td>Goldman Sachs</td>
<td>90</td>
</tr>
<tr>
<td>Director, Investment Banking</td>
<td>Goldman Sachs</td>
<td>110</td>
</tr>
<tr>
<td>Vice President, Investment Banking Division</td>
<td>Goldman Sachs</td>
<td>60</td>
</tr>
<tr>
<td>Associate, Investment Banking (former)</td>
<td>Goldman Sachs</td>
<td>60</td>
</tr>
<tr>
<td>Associate, Investment Banking (former)</td>
<td>Goldman Sachs</td>
<td>65</td>
</tr>
<tr>
<td>Director, Corporate Relations (former)</td>
<td>Hartford Life</td>
<td>120</td>
</tr>
<tr>
<td>CEO</td>
<td>HSBC</td>
<td>60</td>
</tr>
<tr>
<td>Coordinator, Securities Sector Committee</td>
<td>International Banker's Association</td>
<td>30</td>
</tr>
<tr>
<td>Internal consultant</td>
<td>JP Morgan</td>
<td>45</td>
</tr>
<tr>
<td>Partner</td>
<td>JTP Corporation</td>
<td>45</td>
</tr>
<tr>
<td>CEO (former General Manager, Syndicated Finance Division, Mizuho</td>
<td>KKR</td>
<td>120</td>
</tr>
<tr>
<td>Manager, Planning Group, Planning Department</td>
<td>Life Insurance Association of Japan</td>
<td>55</td>
</tr>
<tr>
<td>Assistant Manager, Planning Group, Planning Department</td>
<td>Life Insurance Association of Japan</td>
<td></td>
</tr>
<tr>
<td>Senior manager (retired)</td>
<td>Long Term Credit Bank of Japan</td>
<td>90</td>
</tr>
<tr>
<td>CEO and Country Manager (retired)</td>
<td>Manufacturers Hannover Trust</td>
<td>45</td>
</tr>
<tr>
<td>CEO</td>
<td>Manulife Insurance Company (Japan)</td>
<td>55</td>
</tr>
<tr>
<td>Senior Consultant</td>
<td>McKinsey &amp; Company.</td>
<td>60</td>
</tr>
<tr>
<td>Partner</td>
<td>McKinsey Consulting</td>
<td>60</td>
</tr>
<tr>
<td>Director, Investment Banking</td>
<td>Merill Lynch</td>
<td>50</td>
</tr>
<tr>
<td>Manager, Business Relations and Coordination Team, Syndicated Finance Coordination Division, Global Syndicated Finance Unit</td>
<td>Mizuho</td>
<td>300</td>
</tr>
<tr>
<td>General Manager, Syndicated Finance Division, Global Syndicated Finance Unit</td>
<td>Mizuho</td>
<td>90</td>
</tr>
<tr>
<td>Senior Manager, Syndicated Finance Division, Global Syndicated Finance Unit</td>
<td>Mizuho</td>
<td>180</td>
</tr>
<tr>
<td>Manager, Corporate Banking Division No. 17</td>
<td>Mizuho</td>
<td>45</td>
</tr>
<tr>
<td>Assistant Manager, Corporate Banking Division No. 3</td>
<td>Mizuho</td>
<td>45</td>
</tr>
<tr>
<td>Associate, Structured Finance</td>
<td>Moody's</td>
<td>75</td>
</tr>
<tr>
<td>Position</td>
<td>Organization</td>
<td>Points</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>----------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Assistant Vice President, Analyst, Structured Finance</td>
<td>Moody's</td>
<td>75</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>Naito Securities</td>
<td>90</td>
</tr>
<tr>
<td>Vice President, Analyst, Equity Research Department</td>
<td>Nikko Citi Group</td>
<td>60</td>
</tr>
<tr>
<td>Investment management division</td>
<td>Nomura Asset Management</td>
<td>90</td>
</tr>
<tr>
<td>Senior Consultant</td>
<td>Nomura Research Institute</td>
<td>45</td>
</tr>
<tr>
<td>Director, Leveraged Finance</td>
<td>Royal Bank of Scotland</td>
<td>60</td>
</tr>
<tr>
<td>CEO (Japan)</td>
<td>Royal Bank of Scotland</td>
<td>60</td>
</tr>
<tr>
<td>Head of Asia Syndication</td>
<td>Royal Bank of Scotland</td>
<td>60</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>Russell Asset Management</td>
<td>60</td>
</tr>
<tr>
<td>Japan country manager (former)</td>
<td>SEB</td>
<td>60</td>
</tr>
<tr>
<td>Chief Risk Officer</td>
<td>Shinsei</td>
<td>120</td>
</tr>
<tr>
<td>General Manager, Syndication/Capital Markets Division</td>
<td>Shinsei</td>
<td>60</td>
</tr>
<tr>
<td>CEO</td>
<td>Shinsei</td>
<td>30</td>
</tr>
<tr>
<td>General Manager, Retail Banking Division</td>
<td>Shinsei</td>
<td>40</td>
</tr>
<tr>
<td>Chief Learning Officer</td>
<td>Shinsei</td>
<td>60</td>
</tr>
<tr>
<td>General Manager, Corporate Solutions Group</td>
<td>Star Bank</td>
<td>90</td>
</tr>
<tr>
<td>Deputy General Manager, Product Department</td>
<td>Sumitomo Life Insurance Company</td>
<td>45</td>
</tr>
<tr>
<td>General Manager, Product Development Department</td>
<td>Sumitomo Life Insurance Company</td>
<td>100</td>
</tr>
<tr>
<td>Senior Vice President, Placement Group 1, Syndication Department</td>
<td>Sumitomo Mitsui Banking Corporation</td>
<td>70</td>
</tr>
<tr>
<td>Vice President, Business Engineering Group, Syndication Department</td>
<td>Sumitomo Mitsui Banking Corporation</td>
<td>60</td>
</tr>
<tr>
<td>General Manager, Structured Finance Credit Department</td>
<td>Sumitomo Mitsui Banking Corporation</td>
<td>60</td>
</tr>
<tr>
<td>Country Representative</td>
<td>Swedbank</td>
<td>135</td>
</tr>
<tr>
<td>Country Representative (former)</td>
<td>Swedbank</td>
<td>45</td>
</tr>
<tr>
<td>Managing Director</td>
<td>Tokio Fire and Marine Insurance Company</td>
<td>225</td>
</tr>
</tbody>
</table>
## Appendix 4: Major archival documents

<table>
<thead>
<tr>
<th>Source</th>
<th>Document name</th>
<th>Document type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mizuho Corporate Bank</td>
<td>Status Quo and Future of Syndicated Loan Market in Japan</td>
<td>Public presentation</td>
</tr>
<tr>
<td>Mizuho Corporate Bank</td>
<td>Profitability of Syndicated Loan Business</td>
<td>Public presentation</td>
</tr>
<tr>
<td>Shinsei Bank</td>
<td>Annual Reports (2001 - 2007)</td>
<td>Financial statements</td>
</tr>
<tr>
<td>Mizuho Corporate Bank</td>
<td>Overview of history and development of syndicated loan market in Japan</td>
<td>Internal presentation</td>
</tr>
<tr>
<td>Citibank Japan</td>
<td>Annual Reports (1989 - 2005)</td>
<td>Financial statements</td>
</tr>
<tr>
<td>Citibank Japan</td>
<td>Asia Private Equity Review (January, 2007)</td>
<td>Research report</td>
</tr>
<tr>
<td>Citibank Japan</td>
<td>Asia Private Equity Review (2007 mid-year report)</td>
<td>Research report</td>
</tr>
<tr>
<td>Citibank Japan</td>
<td>Overview of loan syndication business and leveraged finance market</td>
<td>Internal presentation</td>
</tr>
<tr>
<td>Citibank Japan</td>
<td>Foreign banks in syndicated loan market</td>
<td>Internal presentation</td>
</tr>
<tr>
<td>Citibank Japan</td>
<td>Mezzanine Market Growth in Japan</td>
<td>Internal presentation</td>
</tr>
<tr>
<td>Citibank Japan</td>
<td>Citibank Innovations</td>
<td>Internal data/presentation</td>
</tr>
</tbody>
</table>
# Appendix 5: Categorization of themes (Citibank)

## Sub-themes/categories

<table>
<thead>
<tr>
<th>Sub-themes/categories</th>
<th>Primary themes/categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attitude towards Japanese banks</td>
<td>Attitudes towards Japanese banks (30)</td>
</tr>
<tr>
<td>Foreign vs Japanese banks</td>
<td>External characteristics (31)</td>
</tr>
<tr>
<td>Leaning by Japanese banks</td>
<td>External implementation (50)</td>
</tr>
<tr>
<td>External adoption</td>
<td>External implementation (50)</td>
</tr>
<tr>
<td>Embeddedness and legitimacy</td>
<td>External implementation (50)</td>
</tr>
<tr>
<td>Local embeddedness and legitimacy</td>
<td>External implementation (50)</td>
</tr>
<tr>
<td>Relationships</td>
<td>Foreignness (12)</td>
</tr>
<tr>
<td>Implementation strategies</td>
<td>History (11)</td>
</tr>
<tr>
<td>Implementation strategies - borrowers</td>
<td>History (11)</td>
</tr>
<tr>
<td>Implementation strategies - investors</td>
<td>History (11)</td>
</tr>
<tr>
<td>Loan syndication strategies</td>
<td>History (11)</td>
</tr>
<tr>
<td>Advantage of foreignness</td>
<td>Foreignness (12)</td>
</tr>
<tr>
<td>Foreignness</td>
<td>Foreignness (12)</td>
</tr>
<tr>
<td>Loan syndication in the US</td>
<td>History (11)</td>
</tr>
<tr>
<td>Foreign banks in postwar period</td>
<td>History (11)</td>
</tr>
<tr>
<td>Historical events</td>
<td>History (11)</td>
</tr>
</tbody>
</table>

Numbers in parentheses are number of coded responses for each theme/construct.
Appendix 5

Sub-themes/categories

- Adaptation (10)
- Knowledge and skills (5)
- Nature of loan syndication (2)
- Reason for adoption (7)
- Citi Strategy (17)
- Innovation (13)
- Internal processes (11)
- Organizational structure (13)
- Document (6)
- JSLA (13)
- Loan syndication vs main bank system (2)
- Loan trading (5)
- Overall commentary (19)
- Regulators (3)

Primary themes/categories

- Internal adoption (24)
- Internal attributes (53)
- Market development (48)

Numbers in parentheses are number of coded responses for each theme/construct
Appendix 6: Categorization of themes (IBJ/Mizuho)

<table>
<thead>
<tr>
<th>Sub-themes/categories</th>
<th>Primary themes/categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign vs Japanese banks (10)</td>
<td>Attitudes to foreign banks (27)</td>
</tr>
<tr>
<td>Role of foreign banks (10)</td>
<td>Barriers to internal adoption (15)</td>
</tr>
<tr>
<td>Attitudes towards foreign banks (7)</td>
<td>Barriers to external implementation (35)</td>
</tr>
<tr>
<td>Internal attitudes to loan syndication (2)</td>
<td>External attributions (33)</td>
</tr>
<tr>
<td>Initial start of loan syndication (5)</td>
<td>External implementation (60)</td>
</tr>
<tr>
<td>Impediments to change (8)</td>
<td></td>
</tr>
<tr>
<td>Borrower attitudes to syndication (9)</td>
<td></td>
</tr>
<tr>
<td>Investor attitudes to syndication (8)</td>
<td></td>
</tr>
<tr>
<td>Attitudes to loan trading (6)</td>
<td></td>
</tr>
<tr>
<td>External impediments to change (12)</td>
<td></td>
</tr>
<tr>
<td>Current practices – borrowers (3)</td>
<td></td>
</tr>
<tr>
<td>Current practices – external (6)</td>
<td></td>
</tr>
<tr>
<td>Current practices – relationships (10)</td>
<td></td>
</tr>
<tr>
<td>Role of main bank &amp; main bank system (14)</td>
<td></td>
</tr>
<tr>
<td>Implementation – borrowers (19)</td>
<td></td>
</tr>
<tr>
<td>Implementation – external (4)</td>
<td></td>
</tr>
<tr>
<td>Implementation – investors (3)</td>
<td></td>
</tr>
<tr>
<td>Benefits of loan syndication – investor (4)</td>
<td></td>
</tr>
</tbody>
</table>

Numbers in parentheses are number of coded responses for each theme/construct
Appendix 6

Sub-themes/categories

- Borrower legitimization strategies (3)
- External legitimization strategies (24)
- Investor legitimization strategies (3)
- Internal adoption (37)
- Effect or merger (13)
- Impetus for starting syndication (18)
- Loan syndication skills (6)
- Current practices (17)
- Experience and skills of innovators (5)
- Knowledge gained overseas (11)
- Organizational structure (5)
- JSLA (8)
- Market standardization (2)
- Market building (2)
- Diffusion - borrowers & investors (14)
- Attitude toward domestic market (9)
- Historical events in development (22)
- Rationale for loan syndication market (3)

Primary themes/categories

- Legitimization strategies (30)
- Internal adoption (77)
- Internal attributes (38)
- JSLA (10)
- Market development (48)

Numbers in parentheses are number of coded responses for each theme/construct
Appendix 7: Categorization of themes
(Shinsei Bank)

<table>
<thead>
<tr>
<th>Sub-themes/categories</th>
<th>Primary themes/categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign vs Japanese banks (3)</td>
<td>Attitudes towards other banks (9)</td>
</tr>
<tr>
<td>Role of foreign banks (2)</td>
<td></td>
</tr>
<tr>
<td>Attitudes towards foreign banks (2)</td>
<td></td>
</tr>
<tr>
<td>Attitude towards Japanese banks (2)</td>
<td></td>
</tr>
<tr>
<td>Customer expectations on Shinsei (7)</td>
<td>External position (14)</td>
</tr>
<tr>
<td>Role &amp; identity in banking system (4)</td>
<td></td>
</tr>
<tr>
<td>Relationships (3)</td>
<td></td>
</tr>
<tr>
<td>Upper management attitudes (2)</td>
<td>Internal adoption of loan syndication (7)</td>
</tr>
<tr>
<td>Staffing issues (3)</td>
<td></td>
</tr>
<tr>
<td>RM attitudes (2)</td>
<td></td>
</tr>
<tr>
<td>Process of loan syndication (3)</td>
<td></td>
</tr>
<tr>
<td>Innovation focus (4)</td>
<td>Internal attributes (8)</td>
</tr>
<tr>
<td>Practices (1)</td>
<td></td>
</tr>
<tr>
<td>Customer segmentation (3)</td>
<td></td>
</tr>
<tr>
<td>Pressures for lending (2)</td>
<td></td>
</tr>
<tr>
<td>Rationale for loan syndication (2)</td>
<td></td>
</tr>
<tr>
<td>Traditional expectations (3)</td>
<td></td>
</tr>
<tr>
<td>Regulators (1)</td>
<td></td>
</tr>
</tbody>
</table>

Numbers in parentheses are number of coded responses for each theme/construct
References


Asao, K. 2000. Shinsei Ginko o 'kokuzoku' ni shita no wa dare da (Who turned the Shinsei Bank into a traitor?), Bungei Shunju.


References


The Paradox of Foreignness


323


The Paradox of Foreignness


References


The Paradox of Foreignness


References


The Paradox of Foreignness


References


The Paradox of Foreignness


References


The Paradox of Foreignness


References


References


References


Published doctoral dissertations from IIB

1. Laurent Leksell: Headquarters-Subsidiary Relationships in Multinational Corporations. (Out of print)

2. Kjell Spångberg: Strategi i diversifierade företag - huvudkontorets roll.
   (Out of print)


5. Örjan Sölvell: Entry barriers and foreign penetration - Emerging patterns of international competition in two electrical engineering industries.


7. Lars Ågren: Swedish Direct Investment in the U.S.


12. **Maria Lindqvist**: Infant Multinationals - The Internationalization of Young, Technology-Based Swedish Firms.

13. **Peter Hagström**: The 'Wired' MNC. The Role of Information Systems for Structural Change in Complex Organizations.


16. **Lena Zander**: The License to Lead - An 18 Country study of the Relationship Between Employees' Preferences regarding Interpersonal Leadership and National Culture.


18. **Niklas Arvidsson**: The Ignorant MNE - The Role of Perception Gaps in Knowledge Management.


21. **Per Aman**: Revolution by Evolution - Transforming International Management in the Established MNC.

22. **Lin Lerpold**: Reputation by Association - Exploring Alliance Formation and Organizational Identity Adaptation.


