

# Institutionalisation of Cooperation between Japanese MNEs and Local Suppliers and its Effects on Alliance Performance

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## ABSTRACT

The institutionalisation of cooperation refers to a set of norms and rules which alliance partners use to structure their behaviours, interpret social activity, and legitimate patterns of organisation. This research sheds light on the institutionalisation of cooperation and its consequences as a source for competitive advantage, and includes factors at the micro-level to explain the alliance management between Japanese MNEs and their local suppliers in the host country. This study synthesises firm-specific resources and institutional perspectives to analyse a sample of 113 Japanese subsidiaries in the Thai manufacturing sector (response rate 14%) with hierarchical regression analysis. The results support the notion that firm-specific resources, namely asset specificity and alliance experiences, increase the institutionalisation of cooperation level between alliance partners. The institutionalisation of cooperation also plays an important mediation role in the relationship between firm-specific resources and strategic performance of the alliance projects. This research contributes to the literature of institutionalization of cooperation by identifying antecedents and outcomes and showing details how Japanese MNEs strengthen their relationship with local suppliers. For practitioners, this study suggests that the successful firms do better at deploying firm-specific resources through the institutionalisation of cooperation with their alliance partners. Finally, future research is required to extend the study and its implications towards the suppliers' perspective on the institutionalisation of cooperation, larger samples applied to different country contexts and the consideration of new business models and modern production systems that may impact on the relationship between Japanese MNEs and local suppliers

**Keywords:** Institutionalisation of Cooperation, Strategic Alliance Project, Firm Specific Resources, Japanese MNEs

# ปัจจัยที่มีผลต่อการสร้างความเป็นสถาบันระหว่างคู่ค้า และผลได้จากความร่วมมือ ระหว่างบริษัทข้ามชาติสัญชาติญี่ปุ่นและซัพพลายเออร์ท้องถิ่น

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## บทคัดย่อ

**ค**วามเป็นสถาบันระหว่างคู่ค้า (Institutionalization of Cooperation) หมายถึง การสร้างบรรทัดฐานและกฎเพื่อใช้เป็นข้อตกลงร่วมกันระหว่างคู่ค้า และใช้ในการกำกับพฤติกรรมให้เป็นไปตามรูปแบบที่ได้วางไว้ระหว่างที่ทำงานร่วมกัน การศึกษานี้มีวัตถุประสงค์เพื่อศึกษาปัจจัยเหตุและผลได้จากการสร้างสถาบันเพื่อความร่วมมือระหว่างคู่ค้าที่มีต่อความสำเร็จขององค์กรอันเนื่องมาจากการร่วมมือกับคู่ค้า โดยใช้ทฤษฎีสถาบัน (Institutional Theory) ร่วมกับแนวคิด ทรัพยากรเฉพาะขององค์กร (Firm Specific Resources) เป็นกรอบแนวคิดในการอธิบายการบริหารโครงการร่วมพันธมิตร (Alliance Project) ระหว่างบริษัทข้ามชาติสัญชาติญี่ปุ่นและซัพพลายเออร์ในภาคอุตสาหกรรมการผลิตไทย งานวิจัยนี้ใช้แบบสอบถามสำรวจจากผู้จัดการฝ่ายจัดซื้อของบริษัทข้ามชาติสัญชาติญี่ปุ่นในภาคอุตสาหกรรมการผลิตไทย จำนวน 113 บริษัท (คิดเป็นอัตราการตอบกลับ 14%) และใช้การวิเคราะห์ถดถอยแบบเชิงชั้น (Hierarchical Regression Analysis) ผลการศึกษาพบว่าทรัพยากรเฉพาะขององค์กร อันได้แก่ สินทรัพย์ที่ลงทุนเฉพาะในโครงการร่วมพันธมิตร (Asset Specificity) และประสบการณ์จากการร่วมพันธมิตรในอดีต (Alliance Experiences) เป็นปัจจัยสาเหตุที่ทำให้บริษัทข้ามชาติสัญชาติญี่ปุ่นสร้างสถาบันเพื่อความร่วมมือระหว่างคู่ค้าเพื่อใช้ในการบริหารจัดการโครงการร่วมพันธมิตรกับซัพพลายเออร์ นอกจากนี้การสร้างสถาบันเพื่อความร่วมมือระหว่างคู่ค้ายังเป็นตัวกลางระหว่างการใช้ทรัพยากรเฉพาะขององค์กรและผลได้เชิงกลยุทธ์ (Strategic Performance) จากโครงการร่วมพันธมิตร การศึกษานี้เป็นหลักฐานที่สำคัญในการอธิบายได้ว่า บริษัทข้ามชาติสัญชาติญี่ปุ่นมีการบริหารความสัมพันธ์ในเชิงปฏิบัติกับซัพพลายเออร์ไทยได้อย่างไร และยังชี้ให้เห็นว่าบริษัทที่ประสบความสำเร็จในการร่วมมือพันธมิตรกับคู่ค้าจำเป็นต้องมีใช้ทรัพยากรเฉพาะขององค์กรร่วมกับการสร้างสถาบันเพื่อความร่วมมือระหว่างคู่ค้า งานวิจัยในอนาคตสามารถนำแนวคิดจากการศึกษานี้ไปใช้ทดสอบกับบริบทอื่น ๆ เช่น มุมมองของซัพพลายเออร์ และกลุ่มตัวอย่างในอุตสาหกรรมอื่น ๆ รวมไปถึงการนำแนวคิดด้านการผลิตใหม่ ๆ ที่ส่งต่อการบริหารความสัมพันธ์ระหว่างบริษัทข้ามชาติญี่ปุ่นและซัพพลายเออร์ เพื่อเป็นการต่อยอดให้กับแนวคิดนี้ได้ในอนาคต

**คำสำคัญ:** ความเป็นสถาบันระหว่างคู่ค้า โครงการร่วมพันธมิตร ทรัพยากรเฉพาะขององค์กร บริษัทข้ามชาติสัญชาติญี่ปุ่น

## INTRODUCTION AND OVERVIEW

This study explores the determinants and strategic outcomes for the institutionalization of cooperation, focusing on firm-specific resources which may form during the institutionalisation process in strategic alliance management. In making the connection between the resource-based view (RBV) and the institution theory, this research contributes to the on-going discussion regarding the institutionalization of cooperation as the source of competitive advantage from strategic alliances. According to Osborn and Hagedoorn (1997), strategic alliances can be seen as the research setting for institution building. An institutional view suggests collaboration can play a role in the production of new institutions by facilitating their creation and making them available inter-organizationally. There are rules for successful conduct within alliance contracts, and there may be rules of conduct consistent with the logic of collaboration. Consequently, common practices emerge in collaboration which are copied over time, and eventually become generally accepted among business partners.

Most institutional theorists view institutionalization as a source of stability and order (Scott 2000). There is a common belief that firms mimic particular practices which they consider highly effective and efficient (DiMaggio and Powell 1983). In other words, organisations are driven to incorporate practices and procedures defined by the prevailing rationalised concepts as institutionalised in society. This implies a set of best practices for organising work systems cross-nationally, where firms are treated as repositories for capabilities or competence, and knowledge is seen as a substantiated resource (Saka, 2004). By emphasising the role for the institutionalisation of cooperation in strategic alliances, institutional theory offers an important and distinctive extension to the perspectives and approaches in explaining successful alliances (Osborn et al., 1998).

Therefore, management scholars call for research to generalize the institutionalization framework with different unit of analysis (Osborn et al., 1998; Zhang & Dhaliwal, 2009; Xie et al., 2010). It is unclear whether the same set of determinants applies to new settings. In fact, the institutionalization of cooperation would be different between Asian and Non-Asian countries. Inter-organizational management in Asian countries like Japan is largely based on institutionalization process (Saka, 2004). A clearer understanding of the process of institutionalisation would permit the impact of further aspects of collaborative routines to be specified, such as the conditions under which prediction of the institutionalisation of cooperation is possible only if the collaborative aspects are directly included in the analysis. Hence, this research addresses two important but unexplored questions: 1) *What are determinants of institutionalization of cooperation?* 2) *How does institutionalization of cooperation facilitate strategic outcomes?* The purpose of this research is to explore factors influencing the institutionalisation of cooperation in cross-national collaboration and its effect on alliance project performance. This study focuses on the alliance project level between buyers and suppliers; hence, the successful alliance in this research refers to the satisfied outcome of the alliance projects between

alliance partners in terms of generating business opportunities of new products, new technology and new markets. This research argues that such process depends on the specific characteristics of collaboration and the extent to which structuration is facilitated through development in the institution of cooperation between alliance partners, and this will vary significantly across alliance projects. An important issue in understanding firm-specific resources as a source of institutional cooperation lies in examining the relationship between the characteristics of collaboration and consequences of institutionalisation on alliance project performance.

## CONCEPT, THEORY AND LITERATURE

To date, few studies address the process of institutionalization of cooperation at the inter-organizational level by which critical factors that may influence on institutionalization and the value that firms gain from inter-organizational collaboration. More specially, there is no unified view on antecedents of institutionalization of cooperation. For example, Wicks (2001) argued that the determinants of common practices within the organization are regulative (rule-setting, monitoring and sanctioning activities), normative (individual behavior based on obligation of social interaction) and cognitive pillars (individual feeling and action) because they provide stability and meaning to social behaviours among members. Alpay et al. (2008) argued that firm characteristics, including the attitude of harmony and democracy in decision making, are drivers of organizational institutionalization in the context of Turkish family business. That is, an organization's ability to create orderly, stable and socially integrating structures provide an institutional mission. Zhang & Dhaliwal (2009) found that internal organizational resource factors influence on institutionalization process in technology adoption for supply chain operations. They suggested future research to focus on the joint effects of buyer-seller factors on institutionalization process. Similarly, Osborn & Hagedoorn (1997) and Phillips et al. (2000) suggest future research to consider economic and strategic concerns simultaneously incorporate to explain the institutionalization process in buyer-supplier relationships.

**Table 1:** Prior Studies of Antecedents of Institutionalization of Cooperation

Approach and Representative Studies	Antecedents	Institutionalizational Process	Outcomes
Institutional theory Wick (2001)	Regulative, normative and cognitive pillars (individual feeling and action)	Common practices within the organization	Perception of risks and organizational crisis
Resource Based view Alpay et al. (2008)	Firm characteristics (the attitude of harmony and democracy in decision making)	Organizational institutionalization	Quantitative performance and Qualitative performance
Resource Based view Zhang & Dhaliwal (2009)	Internal organizational resource factors (specific knowledge, capabilities, partner dependency)	Institutionalization process in technology adoption for supply chain operations	Strategic Performance Improvement

Furthermore, the strategic outcomes of institutionalization of cooperation remain unclear. Institutionalization literature has responded to this strategic trend with a yet unsettled question. According to Meyer & Rowan (1977), the motivation firms build institutionalization in the organization in order to gain legitimacy, resources and survival. Also, Xie et al. (2010) found that institutionalization of cooperation is a key source of cognition-based trust in the context of buyer-supplier relationships since it lower behavioural uncertainty and recognize the conduct of business partner accurately. Osborn & Hagedoorn (1997) call for strategic perspective on institutionalization framework. Few empirical studies consider institutionalization as the key driver on strategic performance. For instance, Zhang & Dhaliwal (2009) found that organizational institutionalization has impact on firms' adaptive capability and IT-enabled strategic performance improvement, respectively. Also, Alpay et al. (2008) indicated that institutionalizational process in family owned business has strong impact on quantitative performance (sales growth, market share, and return on investment) and qualitative performance (quality of goods/ services, new product development, employee satisfaction). This research, therefore, also aims to strengthen this argument by addressing why certain institutional process can bring competitive advantage to firms and how firms seek balance between common practices between business partners and their own specific resources.

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In addition, existing studies generally emphasises the study of the institutionalisation process at the intra-organisational level but overlook the institutionalisation of cooperation between organisations. According to Phillips et al. (2000), the institutionalisation process and effects are present at two levels: intra-organisational and inter-organizational. At the first level, certain ways of organising become the ‘normal’ way of patterning interaction, while various modes of inter-organisational practice become widely accepted and understood (Alter and Hage, 1993). Through repeated interaction, groups of organisations develop a common understanding and create practices which form the rules and resources to define the field. At the same time, these rules and resources shape the on-going patterns of interaction from which they are produced.

Therefore, research on inter-organization level institutionalization suggests the need for further theoretical development in this area. We contribute to inter-organizational management knowledge by advancing the understanding of institutionalization of cooperation in two ways. First, we theoretically identify antecedents of institutionalization of cooperation, namely asset specificity and alliance experiences. Second, we investigate how institutionalization of cooperation mediates the relationships between firm specific resources and alliance performance in the context of Japanese MNEs and local suppliers in Thai manufacturing sector.

### **Institutionalization of cooperation**

The term ‘institution’ has been used in many different ways in the study of social phenomena (Jepperson, 1991). Institutionalisation refers to the emergence, articulation, and acceptance of certain institutions (Scott, 2000). In addition, institutions are social entities characterised by their self-regulating nature: ‘institutions are those social patterns that, when chronically reproduced, owe their survival to relatively self-activating social processes (Jepperson, 1991).’ More specifically, an institution is defined as a set of norms and rules that regulate the behaviour of actors in enduring social groups (Osborn and Hagedoorn 1997; Li and Su, 2010). That is, when the behaviour of actors deviates from the institutional order, the mechanisms associated with institutions will increase the costs for those choosing other practices in various ways. These may include economic costs (increasing risk), cognitive costs (requiring more thought), and social costs (reducing legitimacy and subsequent opportunities for accessing resources) (Phillips et al. 2000). The more institutions are accepted by actors in a field, the more costly such inconsistencies will be (Ingram and Clay 2000). In this research, the institutionalisation of cooperation refers to a set of norms and rules which alliance partners use to structure their behaviour, interpret social activity, and legitimate patterns of organisation. As a result, these institutionalised cultural patterns act as a resource for solving problems while simultaneously constraining action and the ability of social actors to conceive options in everyday situations. Institutional forces are also linked to managerial cognition (Jarzabkowski, 2004), with isomorphic tendencies evidenced in the choice-making behaviour of actors who draw upon similar social structures. For example, firms in the same industry display

similar recipes for action (Spender 1989). This is because strategic actors are embedded within industry networks, constituting collective cognitive structures that influence conformity of choice in different firms (Geletkanycz and Hambrick 1997). The institutionalisation of cooperation influences group members, such as in decision making and adaptation. As a result, this behaviour impacts on routine embeddedness, similar actions, and community of practices among group members.

### **The role of institutions for Japanese MNEs in strategic alliances**

The competitive success of Japanese multinational enterprises (Japanese MNEs) is based on a cooperative, group-oriented model of human relations (Alston, 1989). Management scholars and practitioners believe that these Japanese management practices in overseas companies offer a superior way of management for their organisations (Campbell and Burton 1994). For example, US companies have studied and adopted practices such as ‘continuous improvement (Kaizen)’, the ‘just-in-time’ inventory system, and ‘lean production’ (Raoprasert and Zeidan, 2006) with varying degrees of success. Japanese MNEs moving towards inter-organisational cooperation (Casson, 1991; Dunning, 1995) are often presented as cultural models for enhancing the institutionalisation of cooperation. The research is in the context of Japanese MNEs subsidiaries in the Thai manufacturing sector because they have a reputation for relationship management with their key suppliers compared to other national MNEs such those in South Korea and the US (Dyer and Chu, 2003). Japanese work systems are also adopted across firms located in the same sector within a single country (Saka, 2004). Hence, the institutional profile (or the regulatory, cognitive, and normative institutions that shape continuous improvement practices) is one of high coordination in Japan.

The relative influence of home and host country institutional environments is dependent on a set of contextual, strategic, and structural variables (Rosenzweig and Singh, 1991). Some of their propositions were tested in subsequent studies on MNE human resource management (Rosenzweig and Nohria, 1994), organisational practices (Zaheer, 1995), and MNE entry mode choice (Davis, Desai, and Francis, 2000). However, there is no clear evidence on the role of institutionalisation in the strategic alliance management process. Precisely, research on collaboration has tended to focus on immediate outcomes for participating organisations while largely ignoring the micro effects of collaboration on the institutional fields in which they occur (Jarzabkowski, 2004). This issue needs to be examined in order to understand different sources and effects of the institutionalisation of cooperation. Hence, it may be useful to assess what factors are used to increase institutional cooperation in strategic alliance management.

In recent years, institutional theory has been shown to have the potential to make a significant and direct contribution to research on MNEs. From the point of view of Japanese MNEs, at the operational level, institutionalization is the operational autonomy provided to individuals in small-group



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activities, strengthened by a sense of ‘groupism’ within large firms in the Japanese automotive industry (Saka, 2004). Japanese firms are likely to implement their unique work attitudes, such as interdependency, trust, and shared knowledge (Cutcher-Gershenfeld et al., 1998) at affiliated firms in the host country. Thus, Japanese MNEs have continuous improvement schemes by securing the commitment of all parties to the process, due to the institutional variation between the demands of a highly coordinated business system.

The institution of cooperation can help MNEs to increase the probability of success in host countries because standard practices decrease misunderstanding and conflicts between alliance partners (Weiss and Hughes, 2005), as well as build trust in the partnerships (Li and Su, 2010). In this study, the role of the institutionalisation of cooperation is examined in the context of the buyer-supplier alliance for Japanese MNEs in the Thai manufacturing sector, since the inter-organisational management relationship has been widely elicited as being a success factor when doing business in Asian economies (Hatch, 2000). Since Asian economies have provided high investment opportunities for the past two decades (Beinhocker et al., 2009), MNEs of all origins increasingly need to understand the relationship oriented management of Asian business in order to gain competitive advantage in this market.

Recently, Japanese MNEs have been moved the foreign direct investment to emerging economies in Southeast region, such as Vietnam, Myanmar, Cambodia, due to high economic growth. Still, Japan is Thailand's largest foreign direct investor with a total investment value of over 144 billion Thai Baht for 426 projects by 2015 (BOT, 2015), covering a range of industries such as automotive, electronics and chemical manufacturing sectors and having noteworthy contributions to the Thai economy. Especially in the Thai automotive market, Japanese companies account for 90% of the market. Toyota Motor Thailand accounts for almost 40% of the market (Kawabe, 2013) and follow by the three major players, including Hino Motors (Thailand), Honda Automobile (Thailand) and Isuzu Motors (Thailand) (Petison & Johri, 2008). Thailand has some advantages to attract Japanese MNEs to continually invest in the economy in spite of the high growth of neighbouring economies. First, Thailand will play an important role when the Asian Economic Community (AEC) blueprint goes into action in 2015 (Satsomboon & Pruetipibultham 2014). Second, Thai government policies are a significant motivating factor that explains inward FDI to Thai provinces (Wattanadumrong et al., 2010). For example, strong local market orientation of Japanese MNEs in automotive is attributable to import protection policy applied to the Thai automotive industry to develop the industry (Brimble & Urata, 2006). Therefore, sales and procurement patterns of MNCs in the automotive industry have greater reliance on Thai market. Third, Japanese MNEs engaged in human capital building and innovative activities with their suppliers and universities in Thai economy for many decades, such as management and technical training (Poon & Sajarattanochoe, 2010). Hence it can be argued that Thailand is a critical market for maintaining the competitive edge in global economy.



Hence, it is anticipated that the research results will help MNEs to gain valuable insight into collaborative management in the cross-cultural business environment. Moreover, the findings of this research are expected to have important implications for corporate alliance management design strategy, especially in the cross-cultural business context. In summary, it is predicted that those companies dedicated to firm-specific resources in building institutional cooperation, namely asset specificity and alliance performance, are likely to achieve competitive advantage, especially in the context of cross-cultural alliances between MNE subsidiaries and local suppliers in the Thai manufacturing sector.

## HYPOTHESIS DEVELOPMENT

As stated earlier, firm-specific resources play an important role in the institutionalisation of cooperation and alliance performance. Firm-specific resources have been defined as proprietary assets, intangible assets, firm-specific assets, monopolistic advantages, and firm ownership. These terms encompass the operational resources of an enterprise and are regarded as essential corporate operating assets. Further examples of firm-specific resources include financial and human resources, patents, trademarks, copyrights, trade secrets, know-how, networks, organisational culture, and the reputation of products and firms (Jiang, et al., 2011). According to Døving and Nordhaug (2002), firm-specific resources may also include the skills needed to complete specific tasks in the firm, capabilities required to operate or maintain customised equipment, and information about specialised job practices in the manufacture of unique products.

In general, the formation of intangible resources requires input from a variety of resources, particularly financial and human, and a firm needs to invest a considerable amount of time in order to achieve optimum results. Due to its ability to attract additional foreign direct investment, a larger firm is more easily affected by the economies of scale on its operation, resulting in enhanced performance. The resource-based view of the firm (Barney 1991, Peteraf, 1993) suggests that firm-specific resources can help in the appropriation of greater economic value. To be precise, firm-specific resources help in achieving alliance performance because such resources are necessary for operation and outperformance of competitors. However, the RBV has been criticised for its market-based assumptions which commodify socially embedded processes (Cook and Brown, 1999) and ignore the dynamism inherent in strategic action (Spender, 1996). Resources may provide competitive advantage at a moment in time but their adaptation and, thus, the sustainability of competitive advantage in a changing environment is less apparent, suggesting the rigidities and routines of the previous section (Cockburn et al., 2000). That is, it is rarely the case that a firm's physical and organisational capital alone can achieve superior economic performance through deploying firm-specific resources (Chung et al., 2013). Instead, the firm often requires its key employees to make accompanying investments in human capital, in the process of absorbing and deploying firm-specific resources. Hence, attention should be focused

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on exploring governance mechanisms which may influence the actual economic benefit obtainable from firm-specific resources.

Accordingly, a further aim of this study is to simultaneously draw upon the theories of RBV and institutionalisation, to examine whether firm-specific resources stimulate Japanese firms to invest more in building the institutionalization of cooperation, thus increasing alliance performance. Therefore, this research expects that the firm-specific resources of alliance experience and asset specificity are not sufficient to induce firms to pursue strategic alliance projects. Instead, these firms have to augment such factors with institutional cooperation. Arguably the institutionalisation of cooperation is particularly important in the context of creating and managing partnerships. Asset specificity and alliance experiences via institutionalisation may not only help Japanese firms to manage strategic alliances with their foreign partners in the host country, but can also facilitate success in strategic alliance projects. Figure 1 presents the conceptual framework of this research.



**Figure 1:** Conceptual Framework

**Asset Specificity**

Asset specificity is useful in strengthening the cooperation between alliance partners. Therefore, partnering firms involved in a collaborative relationship characterised by high levels of asset specificity are more likely to be highly interdependent in terms of task, goal, and achievement. The value of any specialised investments will vary according to the degree of task interdependence, which refers to ‘the extent to which the items or elements upon which work is performed or the work processes themselves are interrelated so that changes in the state of one element affects the state of the other (Scott, 1987).’ That is, the higher the degree of interdependence, the more specialised assets must be devoted to coordination (Dyer, 1996). Hence, inter-organisational collaboration will become more accommodative and is likely to improve when the focal firm creates a dependence situation by investing high asset specificity in the partnership (Luo, 2002).

According to the institutional perspective, buyer-supplier relationships and other types of inter-organizational relationships could be considered as experiments in fostering institutions (Osborn and Hagedoorn, 1997; Phillips et al., 2000; Li and Su, 2010). Lawrence et al. (2002) identified two aggregate

dimensions: involvement and embeddedness. Firstly, collaborations can involve high or low levels of involvement among the collaborating partners. This dimension focuses on the internal dynamics of the collaboration: the ways in which the participating organisations relate to each other. High levels of involvement entail: (1) deep interaction among participants; (2) partnership arrangements; and (3) bilateral information flow. The second key dimension is embeddedness, and describes the degree to which collaboration is entangled with inter-organisational relationships (Dacin, Ventresca and Beal, 1999). This dimension highlights the connection between collaboration and the broader inter-organisational network. Highly embedded collaboration involves: (1) interaction with third parties; (2) representation arrangements; and (3) multidirectional information flow.

Higher level of asset specificity is likely to increase the need for standard practices in the partnership, because idiosyncratic exchanges tend to require higher coordination and involvement than those standardised with relationship partners. This need for action patterns is a precondition for survival. Inter-organisations are driven to incorporate the practices and procedures defined by prevailing rationalised concepts of organisational work and institutionalisation between business partners. Such inter-organisations increase their legitimacy and survival prospects, independent of the immediate efficacy of the acquired practices and procedures. Greater dependence is associated with more intensive signalling of compliance via the creation of formal positions and written documentation for programmes and policies.

*Hypothesis 1a: The higher the level of asset specificity in strategic alliances, the higher the level of the institutionalisation of cooperation.*

The institutionalisation of cooperation consequently leads to a focus on the adoption of specific resources and cooperative arrangements which have acquired social meanings, such as rules and norms of the group, to conduct inter-organisational collaboration. Partnering firms involved in a collaborative relationship characterised by high levels of asset specificity are more likely to be highly interdependent in terms of task, goal, and reward achievements than those that are not (Dyer and Singh, 1998). The interdependence between alliance partners needs a comprehensive set of norms and mutual understanding to improve cooperative routines and achieve satisfactory outcomes. Some empirical studies support the positive relationship between inter-firm cooperation and performance. For example, Luo (2002) demonstrates that cooperation positively drives international joint venture performance. Higher levels of asset specificity are also likely to increase the need for norms and mutual understanding, because idiosyncratic exchanges tend to require greater coordination than standardised exchanges with alliance partners. Close and intensive interaction is characterised by higher levels of asset specificity as a precondition for achieving performance benefits (Krause, 1999).

*Hypothesis 1b: The extent to which a firm applies the institutionalisation of cooperation mediates the relationship between asset specificity and strategic performance.*

## **Alliance Experiences**

Alliance experiences are defined as the extent to which a company has previously been involved in strategic alliances (Anand and Khanna, 2000; Hoang and Rothaermel, 2005; Zollo, Reuer, and Singh, 2002). Experience is a unique resource created within an alliance and may have little value outside it (Wittmann et al., 2009). It also allows alliances to extract the potential for competitive advantage from the respective resources of the combined partner firms and helps alliances maintain durability and inimitability. At the macro level, when firms make international investments, specific knowledge of the host country is gained as well as further general knowledge of international operations (Delios and Beamish, 2001). As argued by previous studies, firms with more experience in a host country have developed their organisational capabilities to suit that country, and are able to make a greater commitment to foreign investment (Johanson and Vahlne, 1977). This argument is also supported by Chang (1995) who suggests that more internationally experienced firms face fewer local knowledge disadvantages. Further, Makino and Delios (1996) found that the comparative utility of structuring foreign investment as a joint venture with a local partner, as opposed to a wholly owned subsidiary, decreased with greater levels of international experience because of the foreign firm's local knowledge.

At the micro level, a firm may learn lessons and generate know-how through its former alliances (Kale et al., 2002; Reuer et al., 2002). These lessons and know-how are likely to become embedded in the minds of the individuals involved. This provides a basis for an organisational routine, such as knowledge sharing with respect to the performance of a certain task or activity, since shared experience engenders the development of common perspectives, enabling a firm to absorb new knowledge more effectively (Nonaka, 1994). Alliance experience is also important for individual staff, and this can be achieved through such mechanisms as training, assistance, and operation manuals. Individuals have to adapt in order to operate unfamiliar tasks with acquaintances. That is, individual experiences and skills account for an essential part of organisational memory and entail a set of repetitive activities ensuring the smooth function of organisational operations (Coriat, 2000).

*Hypothesis 2a: The higher the level of strategic alliance experiences, the higher the institutionalisation of cooperation level.*

Broader institutional belief systems and interaction patterns of actors shape practices. The role of actors in shaping alternative systems is particularly visible where there is a lack of management initiative in emphasising training and adopting a strong approach to discipline (Saka, 2004). A firm with significant prior experience of a repetitive pattern is more likely to select a similar collaboration. The probability increases with each successive decision-specific experience. The prior decision-specific experience enhances firm value by reducing the marginal financial, managerial and other costs of establishing a particular ownership mode in a foreign country, since the firm's existing routines embody its prior decision-specific experience. Lu (2002) provide strong empirical support for this relationship,

and more importantly, they show that this dominates other forms of experience in influencing foreign ownership decisions.

Furthermore, as firms gain experience, they can afford to devote less attention to solving particular problems (Bereiter and Scardamalia, 1993), since they are provided with standardised solutions. Experienced firms become more effective at managing particular processes than those with less experience (Das and Teng, 2002). Consequently, firms have greater incentives to manage effectively (Kale, et al., 2002). Therefore, firms with high level of alliance experience are likely to adopt their knowledge by developing cooperative routines with such mechanisms as norms of action, common vision and a mutual understanding between alliance partners, all of which positively influence strategic outcomes.

*Hypothesis 2b: The extent to which a firm applies the institutionalisation of cooperation to mediate the relationship between alliance experiences and strategic performance.*

## RESEARCH METHODOLOGY

### Survey administration and data collection

The dataset has been generated through a questionnaire survey of purchasing managers of MNE subsidiaries of the manufacturing sector in Thailand. This sector is an appropriate sample of the study because of their history of alliances between buyers and suppliers (Doney and Cannon, 1997; Krishnan et al., 2006). Based on two-digit ISIC codes from a study by Zhou and Poppo (2010), this study collected data from several manufacturing industries, including automotive, chemicals, materials, machinery, iron and steels and electronics industries. The survey instrument focused on buyers because most of Japanese MNEs subsidiaries in Thai manufacturing sector are substantial enough to play the role of buyers from local suppliers, and this approach is consistent with previous empirical studies (Li et al., 2010). Web-based and postal mail self-report surveys were tools for primary data collection. A purchasing manager was asked to select one important strategic alliance project with a local supplier and evaluate inter-organizational trust and alliance characteristics. Then, a purchasing staff person was contacted to complete another questionnaire relating to relational capabilities of the focal project. I compiled a mailing list of 800 MNEs' affiliated companies in the Thai manufacturing sector from Business Development Department, Ministry of Commerce. These firms have foreign equity greater than 50%. Paired questionnaires from 113 Japanese MNE subsidiaries were completed (response rate 14%).

## **Operationalization of key constructs**

The focal explanatory variables and measurements have been adapted from the literature, and in some cases modified after the pilot interviews and tests. Questionnaire items, unless stated otherwise, have been measured using a seven-point Likert scale. Anchors for these scales were 1 = strongly agree to 7 = strongly disagree. Table 1 provides details of the scale items.

## **Construct validity and Common method variance**

In survey-based studies, common method variance is a common concern. I have addressed this issue firstly by collecting data from two different respondents. However, as some of the variables are from the same respondent, I performed a Harman's one-factor test, the most widely used technique for addressing common method variance (Podsakoff et al., 2003). Only one factor accounted for 21.69 percent of the variance. These results are consistent with the absence of common method variance. Hierarchical regression was used to test the hypothesized framework. Tests of normality indicated that none of the assumptions of Ordinary Least Squares (OLS) regression were violated. Variance inflation factors (VIF) were examined to test for multi-collinearity. With this correction, the maximum variance inflation factor (VIF) across the covariates was 3.564, which is significantly below the rule of thumb of 10 used to detect multi-collinearity problem (Hair, et al., 1998).

## **RESULTS**

I applied moderated hierarchical regressions to test how the institutionalization of cooperation is influenced by firm specific resources. The estimation method used is ordinary least squares. All variables utilized to construct the interaction terms were standardized so as to eliminate the initial multi-collinearity problem in the estimated model. With this correction, the maximum variance inflation factor (VIF) across the covariates was 3.564, which is significantly below the rule of thumb of 10 used to detect multi-collinearity problem.

Table 2: Results of Confirmatory Factor Analysis

Variable Measurements	Factor Loadings
Model fit: RMSEA = 0.08, CFI = 0.94, IFI = 0.94, NFI = 0.91, CMIN/DF = 1.85	
<b>Asset specificity</b>	
Your company has changed the location of the distribution facilities used in supplying your supplying products and services for this supplier	0.97
Your company has changed your manufacturing equipment and machinery.	0.83
Your company has changed your inventory and warehouse.	0.96
Your company has changed your software and applications used (e.g. billing, inventory management, EDI etc.)	0.96
Your company has changed your administrative and operating procedures used (e.g. vendor selection, cost accounting procedures, shipping procedures etc.)	0.89
Your company has changed the extent of training needed for staff	0.75
Your company has difficulty to redeploy people and facilities serving the alliance	0.73
It is important that this alliance continues, as termination will result in financial losses due to your investments	0.74
<b>Alliance experiences</b>	
Your company is experienced in inter-organizational collaboration	0.83
Your company has learned how to handle inter-organizational relations through previous alliance	0.94
Your company previous experiences have guided you in structuring and governing this alliance	0.90
You think it is troublesome to cooperate since you have limited previous experience.	0.85
<b>Institutionalization</b>	
A comprehensive set of norms of action has been well developed in the cooperation	0.83
A binding set of rules for both firms has been created	0.90
Both firms have a mutual understanding of each other's organizational culture, values and operations	0.82
Both firms share a common vision and ambition for the cooperative venture	0.75
<b>Strategic performance</b>	
Your company has continued to be able to introduce a new generation of products.	0.97
Your company has continued to be able to extend product range.	0.98
Your company has continued to be able to open up new markets.	0.95



**Table 2:** Results of Confirmatory Factor Analysis (Cont.)

Variable Measurements	Factor Loadings
Your company has continued to be able to enter new technology fields.	0.86
Your company has continued to be able to learn about customers and markets for your products.	0.82

Notes: SFL = standardized factor loading; RMSEA = root mean squared error of approximation, IFI = incremental fit index, CFI = comparative fit index, and NNFI = nonnormed fit index.

a Items are measured with seven-point Likert scales (1 = ‘strongly disagree,’ 7 = ‘strongly agree’)

Table 2 reports descriptive set of analyses statistics and the correlation matrix for the data used in this study. The results of the regression analysis of the model described earlier are reported in Table 3.

The model examines whether the institutionalisation of cooperation present in a strategic alliance project mediates the relationship between firm-specific resources in alliance project performance. Mediated multiple regression is used to test the hypothesised model, requiring the examination of three equations. For step one, the predictor variables (asset specificity and alliance experience) are regressed against the mediator variable: the institutionalisation of cooperation. Step two examines the predictor variables against the dependent variable (strategic performance) to establish if an effect exists for mediation. Finally, step three regresses dependent variables for both the mediator and predictor variables. The results for hypotheses 1–2 are presented in Table 5. Model 2 tests the effects of control variables, including supplier size, supplier dependency, inter-firm length of relationship, firm size, type of industry, and cultural distance. Model 4 presents the mediating effects of institutional cooperation on strategic performance.

Model 3 supports hypothesis H1a and H1b. That is, asset specificity and alliance experiences lead to significantly higher levels of institutional cooperation ( $\beta = .33, p < .001$ ) and ( $\beta = .24, p < .001$ ), respectively. Model 4 investigates the institutionalisation of cooperation in mediating the relationship between firm-specific resources (asset specificity and alliance experiences) and strategic performance. That is, with the addition of the institutionalisation of cooperation in step three, the mediator has a positive impact on strategic performance ( $\beta = .53, p < .001$ ), while asset specificity and alliance experience are not significantly related to strategic performance, providing support for full mediation in hypotheses 1b and 2b.

Table 3: Means, Standard Deviations, and Correlations of Variables

	Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Supplier size	.6161	.48853	1	-.024	.310**	.101	-.141	-.178	.013	.221*	.108	.199*
(2) Supplier_dependency	.2589	.44002	-.024	1	.107	-.051	.063	-.112	.117	-.058	.020	.031
(3) Inter firm length	8.7857	4.95826	.310**	.107	1	.135	.071	.016	.007	.047	-.115	-.036
(4) Firm size	2.0446	.52656	.101	-.051	.135	1	.022	-.057	.065	.129	.141	.139
(5) Types of industry	3.1964	2.30487	-.141	.063	.071	.022	1	.100	-.048	-.122	-.047	.005
(6) Cultural Distance	1.9024	1.91498	-.178	-.112	.016	-.057	.100	1	-.155	-.084	-.255**	-.200*
(7) Asset specificity	31.1607	11.60891	.013	.117	.007	.065	-.048	-.155	1	.411**	.492**	.459**
(8) Experiences	16.6875	5.63137	.221*	-.058	.047	.129	-.122	-.084	.411**	1	.478**	.419**
(9) Institutionalization	19.3214	4.91039	.108	.020	-.115	.141	-.047	-.255**	.492**	.478**	1	.673**
(10) Strategic Performance	21.6161	6.99967	.199*	.031	-.036	.139	.005	-.200*	.459**	.419**	.673**	1

\*p &lt; 0.05, \*\*p &lt; 0.01 and \*\*\*p &lt; 0.001

**Table 4:** Results of Regression Analysis for Mediation

	<b>Model 1 Institutionalization</b>	<b>Model 2 Strategic Performance</b>	<b>Model 3 Strategic Performance</b>	<b>Model 4 Strategic Performance</b>
<b>Intercept</b>	10.34*** (2.11)	18.30*** (3.02)	7.97* (3.17)	0.1183 (0.05)
<b>Control variables</b>				
Supplier size	0.06 (0.86)	0.21* (1.45)	0.17 (1.29)	0.14 (1.12)
Supplier dependency	0.01 (0.89)	0.05 (1.50)	0.02 (1.33)	0.02 (1.15)
Inter-firm length	0.17* (0.08)	0.13 (0.14)	0.13 (0.12)	0.04 (0.11)
Firm size	0.09 (0.73)	0.13 (1.25)	0.08 (1.10)	0.03 (0.96)
Types of industry	0.04 (0.17)	0.05 (0.29)	0.09 (0.25)	0.07 (0.22)
Cultural Distance	-0.17* (0.21)	-0.16 (0.35)	-0.11 (0.31)	-0.02 (0.23)
<b>Main effects</b>				
Asset specificity	0.33*** (0.04)		0.334*** (0.06)	0.16 (0.05)
Alliance experiences	0.32*** (0.08)		0.243** (0.12)	0.07 (0.11)
<b>Mediating effects</b>				
Institutionalization of cooperation				0.53*** (0.13)
R <sup>2</sup>	0.393	0.103	0.328	0.501
Adjusted R <sup>2</sup>	0.346	0.051	0.276	0.456
F	8.332***	2.002	17.289***	35.194***

<sup>a</sup> Values in parentheses are standard errors.

\* p < 0.05, \*\* p < 0.01 and \*\*\* p < 0.001

## DISCUSSION

The analysis of this study indicates that firm-specific resources, namely asset specificity and alliance experience, have the indirect impact on strategic performance through the effect of institutionalisation of cooperation. It is much more likely that firm-specific factors consequently form the foundation for new institutions in the maintenance of routines with their alliance partners to manage inter-organisational collaboration. This research maintains that justifiably, the features of firm-specific resources constituting alliance performance advantages are simultaneously likely to give rise to the institutionalisation of cooperation. Moreover, adopting the institutionalisation of cooperation in

collaboration enables the firm to achieve a greater level of alliance performance from its efforts to deploy firm-specific resources. Overall, three contributions emerge.

### **Contribution 1: Firm specific resources at the alliance project level**

The first contribution is identifying the new set of antecedents of institutionalization of cooperation, namely alliance experiences and asset specificity, and its contribution on satisfied alliance projects between Japanese MNEs and local suppliers. The findings are consistent with the work of other authors in this literature who have argued that intense inter-organisational relationships are more likely to lead to the institutionalisation of cooperation (Danskin et al., 2005). In what is referred to in this study as high-involvement relationships, organisations share expertise and knowledge through joint activity. This idea is consistent with arguments in both RBV literature and within institutional theory, in which cooperation is associated with organisational interconnectedness. Furthermore, this study highlights the way in which inter-organisational collaboration can affect not only the participants, but also other organisations in a certain field, through its contribution to the creation of new institutions and changes in inter-organisational networks.

This research provides strong support that asset specificity has an indirect effect on strategic performance through the institutionalisation of cooperation, which could be due to the nature of interdependent alliance partners, whereby the need for coordination in an organisation is related to the degree of interdependence between different sub tasks. Interdependence can be categorised as pooled, sequential, or reciprocal. All of these forms of interdependence call for coordination, especially regarding reciprocal interdependence. That is, when both partners invest more in a specific asset, they are locked firmly into the relationship, which may increase the switching costs. Hence, as fear that the other can walk away from the partnership is reduced, the partners may engage in further reciprocal action. Consistent with existing research, Phillips et al. (2000) suggest that rules, resources, and practices building from a strategic alliance are more likely to become institutionalised in a certain field to the degree that the organisation controls key resources and involvement in collective arrangements in that institutional context.

Moreover, the study indicates that alliance experiences, embedded in collaborative routines, enhance the institutionalisation of cooperation between alliance partners. These experiences are perceived as standardised models to be imitated in the absence of resources and actors aiming actively to diffuse both continuous improvement techniques in alliance management. That is, effective cooperation requires mutual recognition of these differences and a serious commitment by the partners not to take advantage of one another if such opportunities arise. Consistently, Osborn and Hagedoorn (1997) state that from the perspective of institutionalisation theory it can be expected that companies search for 'rules of conduct' with regard to different forms of organisation which are not only embedded in particular industrial settings but also copied over time as they become institutionalised within

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companies. In a ‘community of practice’ individual thought is essentially social and developed by interaction with the practical activities of a community, through living and participating in its experiences over time (Cook and Brown, 1999).

**Contribution 2: Institutionalization of cooperation as a mediator**

This research also infers that asset specificity is beneficial for strategic outcomes when it is accompanied by the institutionalisation of cooperation. This result indicates that collaboration contributes to the realisation of benefits by creating truly productive and profitable relationships. The institutionalisation of cooperation concept is present in the RBV, which posits that localised, and hence distinctive, strategic contexts are value-creating. The RBV proposes that firms are heterogeneous, with competitive advantage arising from their unique and idiosyncratic bundling of firm resources (Barney 1991). In addition to physical resources, the RBV includes intangible assets such as social complexity as a source of advantage. In addition, high levels of interdependence help to optimise planning for material flow, and when accompanied with effective information exchange, the commitment leads to a higher level of goal achievement and value creation. Institutionalisation and the setting up of collective management tools follow the emergence of the collaborative strategy. However, in this form of emergence, the institutionalisation of cooperation between alliance partners precedes the cooperation itself. The setting up of management tools allows the emergence of collaboration in order to survive the transaction (Meyer & Rowan, 1977). Under conditions of interdependence, companies demonstrate a preference for formal and institutionalised modes of cooperation as the most appropriate form of management tools. Hence, institution is a management tool for satisfied alliance projects.

**Contribution 3 The practice of buyer-supplier relationships of Japanese MNEs**

As the third contribution, this research showed details how Japanese MNEs utilize inter-organizational relationships with local suppliers in Thai manufacturing sector. Much prior research has examined firm-specific advantages at the macro level without attending to the micro level. For example, Siripaisalpipat & Hoshino (2000) found that firm-specific advantages, such as manufacturing productivity, innovation process and new product development, and entry mode choice of Japanese MNEs determine the performance of their subsidiaries in Thailand. Belderbos (2001) contend that buyer-supplier networks drive Japanese electronics firms to invest in Southeast Asia, while more traditional determinants (i.e., firm-specific assets such as research and development capability and marketing expertise) lead them to invest in North America and Europe in order to hinder non-Japanese MNEs from competing in Southeast Asian markets. This research reveals the new set of firm specific resources at the project level, namely asset specificity and alliance experience, are sources of satisfied partnerships between Japanese MNEs and local suppliers. This is in line with previous research (Collison & Rugman, 2004; Brimble & Urata, 2006; Johri & Petison, 2008) which suggest that cooperative relationships are a hallmark

of Japanese business system which limit the expansion of the firms' networks, especially in emerging markets. According to Buckley & Horn (2009), Toyota created substantial Chinese supplier network and leverage partnerships to gain strong foothold in China. The highly coordinated national business system of Japan nurtures collectivist values and tightly knit networks which encourage the institutionalisation of cooperation with their foreign partners (Hatch, 2000). In addition, this study shows that Japanese MNEs in this study have developed the institutionalisation of cooperation for working with local partners to meet obligations towards successful partnerships in Thai manufacturing sector. The implication that can be drawn from Hofstede (1980)'s analysis is that with regard to collectivism dimension of culture relevant for business practice, Japan is significantly similar to Thailand. On these grounds, inter-organizational collaborations between Japanese and Thai firms will generally be convenience management. In sum, the evidences of this study together with current research on inter-organizational relationship management of Japanese MNEs, it is concluded that buyer-supplier network and partnerships are cooperative strategy of Japanese MNEs to gain competitive advantage in Asian markets.

## MANAGERIAL IMPLICATIONS, LIMITATION AND FUTURE RESEARCH

For practitioners, this study suggests that, at least in Thailand's manufacturing sector, successful firms are more disciplined in following the institutionalization of cooperation process than those less successful. The successful firms do better at deploying firm-specific resources through the institutionalisation of cooperation with their alliance partners. Japanese MNE subsidiaries in the manufacturing sector can learn from the evidence presented in this research to determine what action to take during the on-boarding process to encourage collaboration. The institutionalisation of cooperation is the most skillful level in alliance project management since procedures are normalised, often with dedicated staff and routines engaged for a high degree of collaboration. Clear commitment to best practice development, training, monitoring, rigorous analysis, and open communication are required for a successful strategic alliance projects. Therefore, the study of this issue would provide a valuable literary contribution to help answer many important questions concerning strategic management, such as whether MNEs investing in emerging economies such as Thailand should institutionalise mechanisms for managing successful alliance projects.

This study has several limitations that future research should address. First, this study employs the perspective of a single firm and not a dyad or network, and consequently, the findings might be one-sided, not accounting for the impact of the relationship on the partner firms. Future research is required to extend the study and its implications towards the suppliers' perspective on the institutionalisation of cooperation, and larger samples applied to different business/country contexts. Since this study was undertaken using single period cross-sectional data for a single emerging economy, this might be reflected in the generalisability of these findings. Also, this researcher calls for future

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research to test and generalization the model whether Japanese MNEs can use institutionalization of cooperation to achieve successful collaborations in other cultural contexts beyond Asia.

Second, relational rents are jointly generated from specific assets firms dedicate to alliance relationships and from complementarities between their resources and those of their partners (Dyer and Singh, 1998; Lavie, 2006; Mesquita et al., 2008). However, this researcher has only investigated the role of private benefits in strategic alliance projects, namely operational performance and the strategic performance of the firms. Therefore future research should distinguish between private and common benefits to determine the contributions of relational rents among alliance partners. In addition, this research adopted qualitative measurement to assess strategic performance of the buyer-supplier partnerships. Future research should investigate the effect of institutionalization of cooperation on quantitative performance such as sales, profitability, return on equity (ROE) and return on investment (ROI), to reflect financial values of the partnerships.

Third, it is suggested that multi-tier supply chains may have impact on different results. Dyer et al. (1996) studied the suppliers of two Japanese MNEs, including Toyota and Nissan, and three US MNEs, including GM, Ford and Chrysler. This research revealed that purchasing managers of these MNEs ordered high value components highly tailored to the automaker's particular needs with first-tier supplier while they purchased more standardized parts. This can be implied that firms are likely to dedicate relational capabilities when they collaborate with first-tier suppliers rather than second-tier suppliers. Hence, future research should consider the supply chain structure when study institutionalization of cooperation approach.

Finally, with the view of organizational management, this research agrees that institutionalization of cooperation contributes to the satisfied alliance projects between Japanese MNEs and local suppliers as a cooperative strategy to compete with international MNEs in Asian market. However, different operational management in manufacturing sector, such as integral production and modularization in automotive industry, as well as other new business models may have impact on the unique buyer-supplier relationships and supply chain management Japanese MNEs in global market (Motohashi, 2015; Jacobides et al., 2015). Hence, future research should examine the role of new production systems and business models to evaluate competitive advantage of Japanese MNEs in dynamic global business environment.



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