

Organizational tension in international R&D management: the case of Japanese firms

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Abstract

Internationalization of R&D has unleashed a considerable degree of tension within multinational corporations. This paper explores the nature of such a tension in the Japanese multinational firms. At first glance, the most obvious tension appeared to be on the autonomy and control issue between the headquarters and overseas laboratories. However, taking perception gaps as the primary manifestation of organizational tension within a firm, we learned that the tension appears to be more salient in information-sharing issues than in autonomy-control issues, and that the local side seems more dissatisfied with the current level of information sharing and granted autonomy than the parent side. Inter-industry and inter-laboratory differences regarding such findings were also examined. Qualitative data revealed that the nature of organizational tension actually evolves along the differing stages (i.e. dis-integration and re-integration) of R&D internationalization. Theoretical implications for network and information-processing perspectives were also discussed in the context of the dynamics of organizational tension. © 2001 Elsevier Science B.V. All rights reserved.

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1. Introduction

Organizational tension in international R&D operations is an under-explored topic in the field of multinational management (Cheng and Bolon, 1993). Centralization–decentralization tension within a multinational company has been studied by a number of researchers, and it was found that finance and R&D are the most centralized functions, personnel was the least, and production and marketing were in-between (Martinez and Jarillo, 1989; Hedlund, 1981; Welge, 1981). R&D usually being the latest internationalizer among all the functions (Terpstra, 1977; Rugman,

1981; Pearce, 1990), it has been considered relatively free from such organizational tensions across borders.

In fact, however, the recent internationalization of R&D has actually begun to unleash a considerable degree of tension within multinational companies. At first glance, the most obvious tension appeared to be on the autonomy and control issue between the headquarters and overseas laboratories. In addition, such a tension has been studied in the field of international R&D management (Behrman and Fischer, 1980; Pearce and Singh, 1992). While the overseas R&D laboratories requires autonomy to foster creativity and new idea generation, the headquarters often demands coordination and control of overseas R&D activities. Generally, autonomy is a key feature of the value system and incentive structure for doing good

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science, but excessive local autonomy may hinder coherent innovation strategy as a multinational.

Autonomous overseas laboratories are often connected to the external research community. However, external linkages of knowledge and ideas among the scientists may endanger internal coherence as a company. The lack of balance between external and internal linkages is liable to generate autonomy-control tension (Asakawa, 1996a). Scientists are often formally and informally integrated into a local scientific community which may divert them from corporate objectives. Such linkages between the local scientists and the larger external research community blurs organizational boundaries and therefore makes internal company coordination difficult because these scientists may share stronger values with their outside scientific colleagues than with their business colleagues within the company (Larson, 1977; Drews, 1989; Kreiner and Schultz, 1993), although this stage of affairs may be potentially useful for absorbing locally embedded knowledge (Westney, 1990; Westney, 1992).

This paper focuses on the Japanese multinationals with their offshore R&D laboratories. The Japanese multinational corporations (MNCs) have long been considered the most ethnocentric “clans” (Perlmutter, 1969; Yoshino, 1976; Ouchi, 1980; Bartlett and Ghoshal, 1989) and therefore having the lowest headquarters-subsidiary tension thanks to cultural control through frequent interaction and socialization (Jaeger, 1983; Jaeger and Baliga, 1985; Lincoln et al., 1986) and the use of Japanese expat as a bridge between them (Edström and Galbraith, 1977).

However, the experience of recent R&D internationalization by Japanese MNCs suggests a need to revise this picture, since many Japanese firms with overseas R&D activities are beginning to face such a tension. Due to the malfunction of clan logic, organizational tension suppressed by the ethnocentricity begins to emerge. R&D may represent a milestone in the internationalization process by challenging the ethnocentricity prevalent in Japanese MNCs. Particularly in basic research (R), expertise resides locally and knowledge generated at local labs flows into the parent or other parts of the firm (Ronstadt, 1977, 1978). Such labs can be labeled as home-base-augmenting (HBA) subsidiaries as opposed to home-base-exploiting (Kuemmerle, 1997). Here the flow of knowledge

reverses from the traditional center-out direction to the periphery-in direction (Bartlett and Ghoshal, 1990; Gupta and Govindarajan, 1991; Asakawa, 1996b). When local directors and a majority of scientists are local nationals who may not share the same values with the business people in Japan, the ethnocentricity which could be preserved in other functions as an instrument of social control may not be available.

What kind of tension was unleashed when the firms with strong ethnocentric heritage created the heterogeneous units (i.e. overseas R&D laboratories) within which the typical “clan” (Ouchi, 1980) logic fails? How has it evolved during the course of R&D internationalization? Current overseas activities of Japanese MNCs provide a relevant case for studying the issue.

2. Conceptual framework

Organizational tension between the headquarters and subsidiary may arise due to various factors. In this section, we summarize the following perspectives, which present possible explanations for the sources of tension: autonomy-control perspective and information-processing perspective.

2.1. *Autonomy-control perspective*

In multinational firms, autonomy-control tension reflects the current power-dependence structure between the headquarters and subsidiaries (Pfeffer and Salancik, 1978). As for the traditional Japanese multinationals in which the key resources usually reside within their home-country offices (Bartlett and Ghoshal, 1989), overseas subsidiaries' dependence on the headquarters has been high. If power is an antipode of dependency in exchange relations (Emerson, 1962), the headquarters unit's power is high when it controls critical resources required by others but does not depend on the subsidiaries' resources (Pfeffer and Salancik, 1978; Aldrich, 1979). The headquarters' structural power within an MNC network derives from the headquarters' centrality (Freeman, 1979). The headquarters enjoys the highest levels of point centrality when linkages among the subsidiaries as well as their external linkages are minimal (Ghoshal and Bartlett, 1990). In the typical Japanese MNCs, the headquarters-subsidiary tie is typically dense, while

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