＜論　説＞

Explorative activity and dual embeddedness of foreign subsidiaries: a case study of Japanese general trading companies

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1. Introduction

With the remarkable economic growth of emerging countries over the last decade, especially in Asian regions, many multinational corporations（MNCs）have entered markets in those countries and competed fiercely with each other. However, it is not easy for MNCs to gain a competitive advantage and achieve sustainable growth in emerging markets because there are significant differences between the business environments in advanced and emerging countries（Govindarajan and Trimble, 2012; Fourné, Jansen and Mom, 2014）. Therefore, it is essential for MNCs to undertake explorative activity to develop new businesses and products that will meet customers' needs in emerging countries. It is no exaggeration to say that explorative activity, which is activity aimed at acquiring knowledge regarding the introduction of new businesses or products into foreign countries（Doz, Santos and Williamson, 2001）, is one of the most important business activities undertaken by MNCs.

However, Japanese MNCs have not placed a high value on explorative activities aimed at opening up foreign markets. Rather, they have focused on undertaking exploitative activities such as improvements in production systems, techniques, and efficiency when entering foreign markets. One of the main reasons for this is that the Japanese production and management system includes numerous factors that are aimed at increasing the competitiveness of Japanese companies（Liker, Fruin and Adler, 1999; Clark and Fujimoto, 1991）. Hence, it has been seen as important for Japanese MNCs to transfer their production systems or techniques to their foreign subsidiaries. However, it is vital that they also develop new businesses or products by undertaking explorative activities in foreign countries. Ideally, MNCs should undertake both explorative and exploitative activities. In other words, MNCs need to display ambidextrous management skills if they are to achieve sustainable growth（O'Reilly and Tushman, 2004; Fourné, Jansen and Mom, 2014）.

The objective of this paper is to discuss not only the importance of explorative activities in Japanese MNCs, but also some issues surrounding these activities in a context of embeddedness. We also highlight the role of the manager of a foreign subsidiary in relation to these issues. Thus, our research questions are as follows.

(1) Why is conducting explorative activity through foreign subsidiaries so difficult for Japanese MNCs?

(2) How can Japanese MNCs manage both explorative and exploitative activities?

Extant studies indicate that few Japanese MNCs in the manufacturing industry have undertaken explorative activity in foreign countries (cf. Yamamoto and Kuwana, 2015). Therefore, in this paper, we focus on Japanese general trading companies (*sogo shosha*; hereafter GTCs), which have aggressively pursued explorative activities in emerging countries.

The rest of this paper is organized as follows. First, we explain the importance of explorative activities by Japanese MNCs and changes in the role of managers of foreign subsidiaries in terms of their dual embeddedness. Second, we review the theoretical background related to this research question. Third, we undertake a case study involving two Japanese GTCs to explore some management issues, as well as issues related to explorative activities and collaboration with local companies. Finally, we discuss the findings of our case study and suggest some implications for Japanese MNCs.

2. Explorative Activity and Dual Embeddedness in Japanese MNCs

2.1 Importance of Managing Explorative Activity in Japanese MNCs

While the economic growth of advanced countries in the West has slowed in recent years, the economies of the so-called “emerging countries” have achieved rapid growth.

However, because there are significant differences between the business environments in advanced countries and emerging countries, many MNCs have been forced to engage in a hard-fought struggle in the emerging markets. This is especially true of Japanese MNCs, which have been lagging far behind their Korean and Chinese counterparts in creating new businesses or products in emerging markets because they have tried to sell higher-quality products at a higher price to consumers in these markets.

Since the mid-1960s, Japanese MNCs have consistently endeavored to improve the quality of their products while minimizing any increases in production costs during the process of internationalization. As a result, Japanese MNCs have succeeded in manufacturing products that have enabled them to attain the top ranking globally in terms of product quality. Because the manufacture of high-quality products has provided a competitive advantage for Japanese MNCs, they have come to rely on the transfer of production techniques and systems from Japan to foreign subsidiaries when internationalizing their operations. It was necessary for the parent company to maintain tight control over their foreign subsidiaries when transferring established production techniques or systems. Hence, Japanese MNCs have tended to build centralized and hierarchical organizations (Bartlett and Ghoshal, 1989), which was also the typical organizational structure for traditional MNCs for the purposes of implementation. In this type of MNC, foreign subsidiaries only perform tasks as directed by headquarters, and do not engage in explorative activities through their own initiative. In other words, a foreign subsidiary has hardly any autonomy in this type of organization.

Thus, this type of foreign subsidiary cannot develop new businesses or products in foreign countries because some autonomy or entrepreneurship is required to conduct this. This means that a foreign subsidiary must take the initiative within their corporate group and innovate to create new businesses or products that can be marketed all over the world, as well as in the host country. For example, a Japanese autonomous subsidiary of Nestlé developed an instant iced coffee drink that has spread to other foreign countries. Furthermore, the same subsidiary recently developed a new business model for leasing coffee machines that is gaining widespread popularity in Japan. This is an example of explorative activity undertaken by a foreign subsidiary of an MNC.

2.2 Changing Role of Managers in Foreign Subsidiaries

Therefore, it is extremely important for Japanese MNCs to facilitate the explorative activities of their foreign subsidiaries to develop new businesses or products in foreign countries. In addition, the role of the managers of foreign subsidiaries is important for the appropriate conduct of such activities. To properly facilitate explorative activities, new roles and competences will be required by managers of foreign subsidiaries.

Up until now, the main role of expatriate subsidiaries of Japanese companies has been to faithfully implement strategies formulated by headquarters in the companies' home countries. More precisely, their main roles have been as follows (Shiraki, 2006): (i) the transfer of management philosophies, management policies, and production techniques and systems from headquarters to foreign subsidiaries; (ii) coordination of activities between headquarters and foreign subsidiaries; (iii) management of foreign subsidiaries; and (iv) training and development of local employees. Accordingly, many Japanese MNCs have appointed personnel to managerial positions in their foreign subsidiaries who are able to perform these roles efficiently. In other words, Japanese expatriates have constituted one part of what is termed "intra-corporate embeddedness," which we will argue later.

It is certain that these expatriates are important in the management of foreign subsidiaries, but the roles expected of them differ in relation to facilitating the explorative activities of foreign subsidiaries. What roles or competences will be required for managers in foreign subsidiaries to facilitate explorative activities in foreign markets?

First, it will be important for managers of foreign subsidiaries to search for new knowledge and transfer it to members of the organization to develop a new business or product. Second, it is also necessary for them to develop a foreign subsidiary that has the necessary competence to bring about innovation. Furthermore, it is essential that they collaborate with many local actors, such as customers, suppliers, university/research institutes, and social entrepreneurs to create something new. We will deal with these points in the next section.

3. Theoretical Background

To develop new businesses or markets under their own initiative, a foreign subsidiary of an MNC must attach greater importance to explorative activity than to exploitative activity. A foreign subsidiary must undertake explorative activity to acquire knowledge and information relating to new businesses or products that meet the needs of local customers（Doz, Santos and Williamson, 2001; Fourné, Jansen and Mom, 2014）.

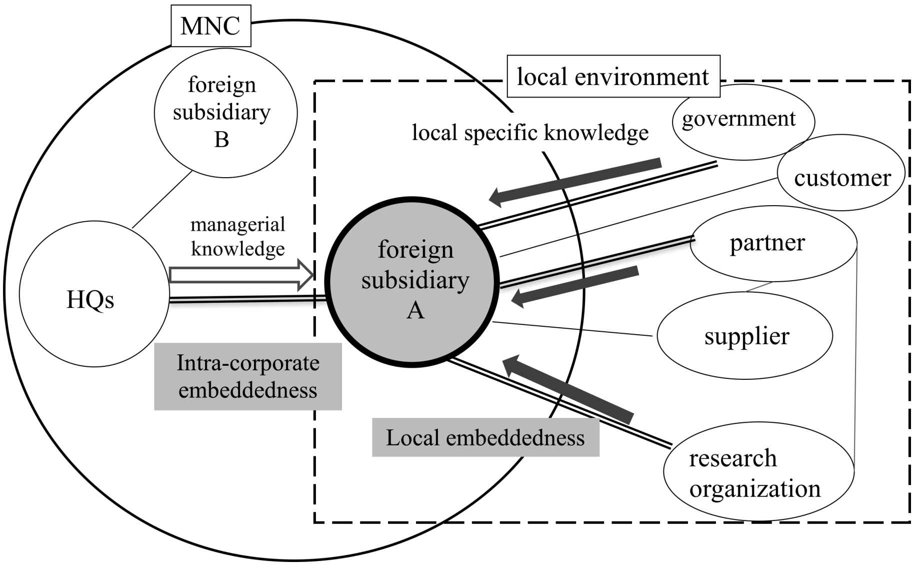
Here, it becomes necessary for us to refer to the concepts of exploitative and explorative activity. The former includes refinement, production, efficiency, implementation, and execution（March, 1991）, which is strongly related to Japanese-specific production practices, such as “*kaizen*,” lean production systems, and miniaturization. The latter entails search, variation, risk-taking, experimentation, flexibility, and discovery（March, 1991）. It includes the creation of new businesses, new markets, and new products, and searching for new organizational routines or systems.

This research theme is particularly important for Japanese MNCs because they tend to place too much emphasis on exploitative activities related to the production process, rather than on explorative activities（Benner and Tushman, 2003）. In addition, as a result of their successful experience in the development of production systems, Japanese MNCs tend to transfer the routines used in the “mother factories” in Japan to their foreign subsidiaries.

However, as many studies have suggested, conducting both explorative and exploitative activities simultaneously is vital in enabling companies to develop a sustainable competitive advantage, although these activities entail paradoxical challenges（Benner and Tushman, 2003; March, 1991; Gibson and Birkinshaw, 2004）. Hence, MNCs need to know how to manage both explorative and exploitative activities（i.e. to operate with ambidexterity）. Thus, we need to examine, in the international business context, how can MNCs operate with ambidexterity and overcome this challenge? One theoretical solution is to utilize the heterogeneity among the MNC's subsidiaries to gain access to and acquire information and knowledge about each local environment. However, the increased heterogeneity of MNCs through their subsidiaries does not necessarily ensure a positive influence on innovativeness. In recent years, the number of foreign subsidiaries within large MNCs has been increasing at a remarkable rate, and many MNCs have become extremely complex, therefore it has become increasingly challenging for headquarters of MNCs to manage their diverse foreign subsidiaries (Bouquet and Birkinshaw, 2007; Meyer, Mudambi and Narula, 2011).

While confronting such complex external environments, MNCs must also manage their interorganizational network to foster explorative activities. In other words, from the embeddedness perspective, MNCs need to know how to manage multiple embeddedness with respect to both institutional and cultural aspects (Forsgren, Holm and Johanson, 2005; Meyer, Mudambi and Narula, 2011). Here, we outline our research framework, based on the concept of relational embeddedness (see Figure 1). We focus on two types of MNC embeddedness: (i) intra-corporate embeddedness (between headquarters and foreign subsidiaries), and (ii) local embeddedness (between the foreign subsidiary and local actors, such as local government, customers, alliance partners, suppliers, and universities).

Figure 1 Dual embeddedness of a foreign subsidiary



In a dyadic relationship, it is suggested that the strength of the relationship has a positive influence on fostering innovativeness, mainly as a result of the transferability of tacit knowledge, a shared understanding with other entities, and the increased likelihood of finding new business opportunities（Gulati, 1998）. Relational embeddedness can be defined as “the interdependence between social relations, exchange of resources, and combinations of resources in the relationship”（Andersson, Blankenburg Holm and Johanson, 2005, p. 31）, which is based on Granovetter’s（1985）view that economic action is not an autonomous activity.

Extant research has shown the importance of an externally embedded network of foreign subsidiaries in terms of subsidiary innovativeness, because foreign subsidiaries cannot gain access to and acquire knowledge from local actors（such as governments, customers, alliance partners, suppliers, and research organizations）without achieving local embeddedness（Andersson, Forsgren and Holm, 2002; Forsgren *et al*, 2005）, as illustrated in Figure 1. According to business network theory（e.g. Andersson, Forsgren and Holm, 2002; Forsgren, Holm and Johanson, 2005）, it is important to analyze the network in which each subsidiary or affiliated company is embedded, because knowledge about foreign markets is considered to be significant. More specifically, as the internationalization process of an MNC advances, each subsidiary will engage in relationships with many actors in their local market, such as customers, suppliers, universities, and government agencies. More importantly, MNCs must acquire knowledge about “who the important players are in the network and how they are related to each other（Forsgren, 2008, p. 104）.” Building on business network theory, it is assumed that subsidiaries should play a role as a knowledge broker between the local actors and the other units of the MNC.

However, there entails also a negative side to embeddedness. If the level of embeddedness is too high（i.e. there is overembeddedness）, negative effects can emerge such as a decreasing possibility of finding new business opportunities（Uzzi, 1997; Hagedoorn and Frankort, 2008）. Therefore, in the international business context, MNCs have to manage the dilemma that while intra-corporate embeddedness is necessary to transfer managerial resources or knowledge from headquarters to foreign subsidiaries, too strong a relationship between headquarters and the foreign subsidiaries（i.e. overembeddedness）could impede the innovativeness of those foreign subsidiaries.

In the case of Japanese MNCs, foreign subsidiaries have usually been under the control of headquarters, and thus too strongly embedded in the centralized, hierarchical organizational system prevalent in the MNCs’ headquarters in their home country. To develop new businesses or products in foreign countries, it is vital that MNCs decrease the level of intra-corporate embeddedness and increase their subsidiaries’ level of local embeddedness.

To overcome "the corporate immune system," that is, resistance toward explorative activities, it is important to eliminate the causes, such as ethnocentric behavioral traits of managers, suspicion of the unknown, and resistance to change (Birkinshaw and Ridderstrale, 1999).

The question then is, who should search for new knowledge or new business opportunities for MNCs and how? It is rather surprising that a focus on what kinds of human resources (both expatriates and local staff) act as searchers for new knowledge or new business opportunities has been lacking within the international human resource management (HRM) literature. Indeed, some international entrepreneurship studies have paid more attention to this topic (e.g. Ghauri, Hadjikhani and Johanson, 2005; Williams and Lee, 2011).

Based on existing studies on entrepreneurship and organizational management, it is important that the searchers for new knowledge do not simply adhere to existing practices, or what is taken for granted within the organization (March, 1991; Shane and Venkatraman, 2000; Benner and Tushman, 2003). This is because "entrepreneurial opportunities are different from the larger set of all opportunities for profit [...] because the former require the discovery of new means-ends relationships, whereas the latter involve optimization within existing means-ends frameworks" (Shane and Venkatraman, 2000, p. 220).

Therefore, searchers for new knowledge need the capability of discovering new means-ends relationships throughout the world. However, the capability of finding entrepreneurial opportunities is dependent on the prior knowledge or information that they possess (i.e. schema). That is, the searchers' scope when searching for new knowledge is restricted by their schema. Hence, searchers for new knowledge must defy the conventional practices, ways of thinking, and stereotypes of MNCs. In this sense, it is important that they are exposed to a variety of ideas, thoughts, and views in various local contexts.

In addition, to discover and acquire new knowledge in local contexts, searchers need to build close relationships with knowledgeable local actors, such as customers, suppliers, universities, and government agencies. In other words, the searchers must be embedded into the local networks and penetrate the local contexts as "insiders" (Johanson and Vahlne, 2009). In addition, they need to know who possesses various kinds of knowledge (Forsgren *et al*, 2005). Further, the more important, tacit, or complicated the knowledge, the longer it takes for the searchers to absorb or master such knowledge (Nonaka and Takeuchi, 1995).

4. Methodology

We utilized the qualitative inquiry method to gather related data. A case study focusing on large Japanese MNCs was undertaken, mainly because our research question includes the "how" factor.

Although our case study covered a wide range of sectors, including manufacturing (electronics, chemical, precision equipment, and parts and components) and services (apparel and parcel delivery), we focused on GTCs (i.e. *sogo shosha*) in this paper for the following reasons.

First, these companies play a very important role in the process of internationalization in relation to industrial development in Japan. Hence, numerous studies have focused on GTCs in various research fields (e.g. Yonekawa, 1990; Yoshihara, 1982; Dicken and Miyamachi, 1998; Goerzen and Makino, 2007). Second, compared with Japanese manufacturers, GTCs have tended to be more aggressive in terms of conducting explorative activities through their foreign subsidiaries in recent years.

In this case study, we gathered primary data by interviewing managers of two GTCs (i.e. Gamma and Omega[1]) during from 2011 to 2014. We also collected secondary data from economic journals, newspapers, and other publications. Semi-structured interviews were conducted toward both at two GTC headquarters in Japan and at their foreign subsidiaries in Singapore. Interviewees included several HR executives and managers at the Japanese headquarters and top managers and HR managers at the Singapore subsidiaries. Two rounds of interviews were conducted in the Singaporean subsidiaries. In order to achieve validity and reliability, the triangulation methodology (e.g. Eisenhardt, 1989; Yin, 2003) was employed.

5. Case study of Japanese GTCs

5.1 Gamma

Gamma is presently one of the major GTCs in Japan. As of September 2015, the company had 29 offices in Japan and 192 overseas offices, with 43 subsidiaries and 43 branches in approximately 90 countries. The number of employees in the parent company and all of its consolidated subsidiaries is about 70,000. As these figures show, the company runs its business on a worldwide scale. The company has several business groups that operate in diverse fields such as global environmental infrastructure, industrial finance, logistics and development, energy, metals, machinery, chemicals, and living essentials (food, clothing and housing). The company has also recently established a business services group. Consolidated net income in 2015 was about 400 billion yen.

Gamma formulated a new corporate strategy entitled “New Strategic Direction” in 2013. This strategy consists of basic concepts regarding corporate policy together with a business and marketing strategy for sustainable growth of the company toward 2020. More specifically, the company is not only selecting winning businesses, but also strengthening these businesses toward 2020. The company aims to reduce the number of business segments from the current total of 47 to around 35 or 40, while at the same time developing 10 business segments earning more than 20 billion yen and between 10 and 15 business segments earning between 10 and 20 billion yen in consolidated net income per year.

To attain these strategic objectives, Gamma has accelerated its global business development by leveraging its shift toward Asian markets, which are expected to gain greater international presence in numerous business fields. This entails securing global supply sources to meet the increasing demand for food, mineral resources, oil and gas resources, and fertilizers, and establishing a local presence within the Asian market through, for example, M&A and strategic alliances.

With regard to securing global supply sources, the company aims to build a sourcing network across the Americas in the food business, and at the same time develop projects to secure supply sources from Asia, Oceania, the Americas, and West Africa in mineral resources, and oil and gas resources. As for establishing a local presence within the Asian market, the company aims to develop a strategy for “multi-localization” in the retail and automotive businesses in collaboration with some prominent regional companies, such as Thai and Indonesian companies.

It goes without saying that such a strategy entails explorative activities by the MNC. Thus, the company has undertaken explorative activities, mainly in the Asian market, to facilitate its sustainable growth toward 2020.

It is essential for the company to reform the relationship between headquarters and foreign subsidiaries or branches to facilitate explorative activity. The company has become profitable by building a business model that not only secures the rights and interests of overseas natural resources, but also supplies manufacturing companies at home with such resources. Because headquarters needed to maintain strong control over its foreign subsidiaries in this business model, the relationship between headquarters and its foreign subsidiaries was a vertical one. In other words, foreign subsidiaries have operated as units that only carried out tasks assigned by headquarters, and have had very little autonomy. They have been strongly embedded in a vertical relationship initiated by headquarters.

However, it is almost impossible for foreign subsidiaries to develop businesses independently in foreign countries in such a relationship. Nevertheless, the company has had no choice but to expand into overseas businesses in response to the contraction of the domestic market caused by a declining birthrate and aging population. Thus, the company has shifted the relationship between headquarters and foreign subsidiaries from a vertical relationship to a horizontal one. In other words, the company has not only built a network on a global scale, but also reduced the degree of control that headquarters has over foreign subsidiaries. As a result, there has been a significant change in the role of the foreign subsidiaries, which have been given increased autonomy to run their businesses and have been encouraged to develop new businesses and propose new business ideas. Foreign subsidiaries have been given responsibility to pursue profits through their own efforts[2].

By way of illustrating such organizational reform, Gamma made a decision to relocate its divisional headquarters of metal business from Tokyo to Singapore in 2013. The company had been purchasing iron ore and coal from international natural resource developers, such as Rio Tinto, to supply blast manufacturers at home. And, a subsidiary of the company, its steel products division, had been selling steel plate made by blast manufacturers to component manufacturers at home. However, while the demand for steel products has been decreasing with the downsizing of the domestic market, and no increase in transactions with Japanese companies in foreign countries is expected, the demand for steel products in the Asian market, including Chinese, Indian, and Southeast Asian markets, is widely expected to expand in the future.

To meet such expansion of demand in the Asian market, it was vital for the company to cultivate local manufacturers, such as machine, automobile, and electrical appliance manufacturers. Thus it was preferable that the company relocated its headquarters nearer to its customers so as to meet the needs of local manufacturers. Hence, the company made a decision to relocate its headquarters for the metal business to Singapore, which is the best place to understand the situation regarding demand for steel products and to cultivate customers in Chinese, Indian, and Southeast Asian markets. This reform by Gamma has led to increased collaboration with local actors, i.e. local embeddedness.

Moreover, it is important to develop talented people who have the necessary competence to promote such business activities, and the company has placed great emphasis on the development of international human resources in recent years. It established an international human resources office in 1994 to advance the internationalization of its human resources, and then in 2006, the company established the Center for Human Resources Development and put in place a system to better promote global human resource development. The company has emphasized the importance of strengthening global competitiveness in human resources and sharing value among employees.

In recent years, the company has been especially committed to strengthening the global competitiveness of its young employees. The main method of developing young employees in the company has been on-the-job training. Lately, the company has promoted interorganizational exchange with the aim of exchanging human resources experience, and has begun to dispatch young employees to countries all over the world, in particular emerging countries such as China and India. Moreover, the company has begun to transfer personnel from regional offices around the world to its headquarters. The number of transferees has increased year by year.

In addition, the company structures quite a lot of training programs for young employees[3]. For example, there are junior management programs for assistant managers and a leadership program for managers. Approximately 250 employees attended these programs in 2014. There is also a global management program for executive candidates selected from overseas subsidiaries around the world. Thus, the company intends to develop talented persons who have the necessary competence to engage in explorative activities in foreign countries, especially Asian countries, as well as to manage its foreign subsidiaries.

As mentioned above, in recent years Gamma has stressed the importance of developing talented people who can ensure its global competitiveness, but this development relies on the process of training. Taking the case of a subsidiary in Singapore as an example[4], the main duty of Japanese expatriates at present is to manage the subsidiary to achieve sustainable growth rather than opening up new markets or building new businesses. Therefore, the company employs local people who have entrepreneurial or strategic mindsets and appropriate knowledge of local business conditions to open up new markets or build new businesses. These people are sometimes dispatched from Singapore to other Asian countries.

Gamma expects that young Japanese employees will develop into talented people with entrepreneurial skills who will be able to develop new businesses in emerging countries. Thus, the company has been developing boundary spanners, who have the necessary mindset and competence to be deeply involved in local businesses without being embedded in a tight vertical relationship between headquarters and the foreign subsidiary.

5.2 Omega

Omega is also one of major Japanese GTC, with seven major business segments: iron and steel products, mineral and metal resources, machinery and infrastructure, chemicals, energy, lifestyle, and innovation and corporate development.

In 2014, as part of its medium-term management plan called “2020 Vision,” Omega introduced a new corporate concept of “360° innovation” and established seven key strategic domains, which were applied across the seven existing business areas.

“360° innovation” means collaborating across business divisions, connecting information, ideas, businesses, generations, nations, and experience on a 360° horizon to create new value, thereby driving innovation. More specifically, the key strategic domains include the hydrocarbon chain, mineral resources (urban and underground) and materials, food and agriculture, infrastructure, mobility, medical/healthcare, and lifestyle products and value-added services.

The establishment of key strategic domains was seen as a groundbreaking effort that emphasized the creation of new businesses across existing business departments, thereby leading to explorative activities on a company-wide basis.

In addition, a feature of the company's corporate strategy was the identification of "priority" countries such as China, India, Indonesia, Russia, Mexico, Myanmar, and Mozambique.

Omega has about 140 sites (i.e. offices and subsidiaries) in 66 countries, and the total number of employees is more than 47,000[5]. It has established three regional business units in the United States, Singapore (Asia Pacific), and EMEA (Europe, Middle East & Africa).

In recent years, Omega has focused on undertaking explorative activities in search of new businesses in collaboration with local companies.

In 2008, Omega established the medical/healthcare business division, which consolidated various medical or healthcare businesses throughout many different divisions. In the Asian region in particular, the aging population and changing dietary habits as a result of economic development means that the lack of adequate medical infrastructure is of great concern.

Meanwhile, in Japan, the healthcare industry is subject to numerous regulations under Japan's Medical Law that constrain profit-seeking activities. For instance, in principle, stock corporations are not permitted to operate hospitals, other than in a part of the Special Zone. Further, only non-profit organizations are allowed to provide core medical services (i.e. diagnosis and treatment of inpatients and outpatients). Thus, Japan's medical/healthcare industry is significantly different from those in other countries, regardless of whether they are developed or emerging countries (see Figure 2).

Figure 2　Possibility of corporate participation in medical services

	Japan	U.S.	U.K.	Germany	France
Core services	Possible for non-profit corporations only	corporate participation allowed			
Peripheral services	corporate participation allowed				

Note: Core services refer to hospitalization and outpatient care; peripheral sectors to hospital management consulting, financial consulting and medical care product manufacturers.

(quoted from *JETRO Japan Economic Monthly*, July 2005)

Hence, Omega was only allowed to provide peripheral medical services in Japan, such as catering, medical check-ups, healthcare-related IT, laboratories, dispensing pharmacies, and nursing homes. However, in 2011 Omega made a decision to enter the core medical services business in the Asian region through foreign direct investment in Quall[6], which is Asia's largest private hospital group. The Quall group operates about 30 large hospitals in Singapore, Malaysia, Turkey, India, and China. Therefore, through forging an alliance with Quall, Omega was able to develop new businesses in Asian markets.

This significant alliance between Omega and Quall started with an alliance with a small subsidiary of Quall in Singapore, which operated a clinical examination business. Through this initial alliance, the partners were able to build a relationship of mutual trust, which led to the larger alliance with Quall itself.

In a case that entailed achieving local embeddedness through an alliance partner in an emerging country (Brazil), Omega acquired 15% equity in Nyce[7], the world's largest iron ore supplier, in 2003. Although Omega and Nyce had already built a strategic relationship, the relationship between grew closer after 2003. Omega was given the authority to appoint officers to Nyce's board, and thus was able to participate directly in Nyce's management.

Omega's history in the Brazilian iron ore business can be traced back to the 1970 s. However, its role at that time was that of a traditional Japanese trading company. In other words, Omega's Brazilian iron ore mining business started on a commission basis. However, over time, the scope of Omega's activities has gradually broadened as follows: pure-play investment in iron ore assets in 1986; participation in the management of mining companies in 1997; and then partnering with mining giants in 2001[8]. Thus, the far-reaching strategic alliance established between Omega and Nyce, followed by Omega's 2003 equity purchase in Nycepar, was the logical culmination of Omega's experience in the Brazilian iron ore sector over three decades.

Both parties in the alliance have their own distinct strengths. While Nyce has a significant presence in various mining industries, including iron ore, nickel, copper, gold, and coal, Omega is familiar with international markets across multiple fields. As Nyce diversified and globalized its businesses, Omega's business units helped by providing capital and expertise, thereby creating new cross-divisional businesses. As a result, nine of Omega's 13 businesses have been involved with Nyce. Furthermore, the Brazilian subsidiary, which had been developed gradually over a long period, was eventually able to play a role as a "hub" for several other subsidiaries in South America.

Turning our attention to HRM in Omega, it is vital that a firm develops talented personnel to foster explorative activities and local embeddedness in foreign countries. Therefore, in recent years, Omega has made a special effort to develop human resources that will be able to promote such activities in foreign countries, especially in emerging countries.

Originally, each business unit (BU) wielded a lot of power in terms of human resource development and career paths. In most instances, once a university graduate was assigned at a BU, they would spend most of their career in the same BU. In other words, there was a lack of mobility of human resources across BUs.

However, in response to its changing strategy, Omega introduced a variety of new human resource practices and human resource development programs to foster mobility across BUs, which served to broaden employees' horizons and mindsets. During the last decade, Omega has introduced the following global human resource development (training) programs:

・Global Management Academy (GMA): This program, which commenced in 2011, was developed in conjunction with Harvard Business School to train future leaders of Omega in a truly diverse environment with a variety of participants (including high-potential foreign subsidiary managers and important alliance partner managers).

According to one Omega executive, participants from the Japanese headquarters can obtain a variety of new viewpoints from the managers of foreign subsidiaries and alliance partners during discussions that form part of this program.

・Business Integration Program (BIP): This program was aimed at training staff for future management positions in foreign subsidiaries. Staff were selected from foreign subsidiaries and transferred to Omega's headquarters in Japan for 1–3 years.

In addition, Omega recently introduced a compulsory one-year overseas transfer program for every young employee (within their first six years of employment). Also, to develop "area specialists" and "language specialists," every year, 30–40 young staff from the headquarters in Japan are transferred to foreign countries to gain local experience. Furthermore, to strengthen the bonds between Omega and Nyce at a person-to-person level, the two companies launched a unique exchange program in 2003. This usually involves around 16 Omega employees being sent to Nyce for two to three months every year, and vice versa. As of October 2015, around 130 people from each company had taken part in this program. This exchange helps to reinforce the companies' relationship at the grassroots level, while familiarizing participants with the work practices and cultural norms of their counterparts. Thus, Omega expects Japanese employees to gain the entrepreneurial and collaborative skills that are necessary to develop new businesses and products in foreign countries.

Overall, Omega has fostered explorative activities through several measures, including an emphasis by headquarters on exploration in their mid-term corporate strategy (i.e. 360° innovation), building relationships with local alliance partners to achieve embeddedness, and HRM practices aimed at developing future entrepreneurial and collaborative talent within local entities.

6. Discussion and Implications

Japanese GTCs have long engaged in overseas business as trading companies, whereby they act as an intermediate between manufacturers and their customers and receive a commission for their services (Yonekawa, 1990; Horiguchi and Sasakura, 2011). They have played a significant role in the internationalization of Japanese manufacturers, as well as in the increase in exports of their products that resulted in the remarkable economic growth of Japan after World War II. However, as Japanese manufacturers have gradually increased production in foreign countries, it has become increasingly difficult for GTCs to operate profitably. As a result, they have attempted to develop new businesses based on investment rather than trading in foreign countries over the last few decades (K. Tanaka, 2004; T. Tanaka, 2012). Therefore, GTCs may be said to be typical of companies in Japan, which have aggressively undertaken explorative activity in foreign countries rather than continuing with their existing businesses.

Compared with Japanese manufacturers, we found that GTCs have aggressively undertaken explorative activities to develop new businesses in foreign countries, especially emerging countries. To undertake explorative activities in foreign countries, they have had to reform the organizational relationship between headquarters and their foreign subsidiaries. Both case study companies, Gamma and Omega, have embarked on building a global network organization.

Firstly, the organizational relationship between headquarters and the foreign subsidiaries was originally a vertical one in both Gamma and Omega, but has begun to shift to a more horizontal relationship. Although the headquarters in Japan have retained relatively tight control over the subsidiaries in relation to human resources and finance, they have granted a certain degree of autonomy to their subsidiaries. In particular, Gamma is aiming to develop foreign subsidiaries that will be responsible for generating profits through their own efforts. In addition, Omega has developed some foreign subsidiaries that can serve as a hub for other foreign subsidiaries in the same region. This involves decreasing intra-corporate embeddedness to a degree, as a result of the creation of a new "center" unit in the overall MNC. This organizational mechanism of new center unit could be related to multi-centered organizational model in IB, such as heterarchy (Hedlund, 1986), centers of excellence (Andersson and Forsgren, 2000; Frost, Birkinshaw and Ensign, 2002) at a fundamental level.

Both Gamma and Omega have strengthened their relationships with "local mega actors" in foreign countries and collaborated with them to develop new businesses. In particular, Omega has established a medical/healthcare business division in conjunction with local companies in Singapore and at the same time participated in the management of mining companies in Brazil by forming a strategic alliance. Meanwhile, Gamma relocated the entire headquarters of its metals business from Tokyo to Singapore to facilitate collaboration with local companies in Asian countries. It is extremely important for firms to develop close relationships with local actors who are well versed in the local business environment and are able to search for the knowledge necessary to create new businesses in foreign countries. In other words, firms need to create local embeddedness. This is a type of business behavior that we have rarely observed in Japanese manufacturing companies（Yamamoto and Kuwana, 2015）.

As mentioned above, it is rare for the headquarters of Japanese manufacturers to provide autonomy to their foreign subsidiaries for explorative activity and collaboration with local actors to develop new businesses in foreign countries, especially in emerging countries. Hence, the business behavior of GTCs may be suggestive of the necessary behavior of Japanese MNCs in the future. Furthermore, it may be said that GTCs have practiced a management approach that maintains a balance between explorative activity and exploitative activity, i.e. ambidexterity.

Secondly, the role of foreign subsidiary managers has become very important in undertaking explorative activity or collaborating with local actors in foreign countries. To carry out such business activities, some Japanese MNCs have developed talented people who are able to play a prominent role in global business development. As mentioned earlier, both Gamma and Omega have also focused on developing a new type of international talent by implementing various training programs in recent decades. It is especially significant that they have focused on developing young employees by sending them to emerging countries, including India and Brazil, or putting them through training programs. Omega has encouraged young employees to develop networks in emerging countries. Further, both Gamma and Omega have promoted the interorganizational exchange of human resources across borders. This not only promotes the sharing of knowledge among employees, which may lead to new businesses or products, but is also useful for collaboration with others in developing new businesses. Through such repeated and cumulative interorganizational exchange of human resources between headquarters and foreign subsidiaries, dual organizational identification in subsidiary managers towards both a foreign subsidiary and overall MNC could foster（Vora, *et al*, 2007）, which may lead to the balanced ambidexterity management in turn.

Because the development of young employees through international exchange programs is very useful for developing talented staff with entrepreneurial skills and competence in collaborating with people from different cultures, it is a significant factor in the development of new businesses or products in foreign countries. It is also noteworthy that both Omega and Gamma have had Japanese executives permanently stationed within foreign subsidiaries. This can be seen as clear evidence that the two companies attach importance to vigorously developing new businesses in emerging markets.

7. Conclusion

In recent years, MNCs from all over the world have competed fiercely with each other in emerging countries. Therefore, it is necessary for Japanese MNCs to undertake explorative activity as well as exploitative activity to achieve sustainable growth in foreign countries. However, Japanese MNCs, especially those in the manufacturing industry, have paid more attention to exploitative activities than to explorative activities. Therefore, we focused on Japanese GTCs, which have aggressively undertaken explorative activities in emerging markets in recent years.

It is clear that while GTCs have undertaken explorative activities with the aim of developing new businesses, they have also attempted to collaborate with local actors in strategic alliances to develop new businesses in emerging countries. It took the GTCs many years to gradually establish local embeddedness by working with local alliance partners in emerging countries.

However, it is quite difficult for MNCs to undertake both activities successfully, because foreign subsidiaries face the problem of dual embeddedness, i.e. intra-corporate embeddedness and local embeddedness. Thus, MNCs need to implement a management style that achieves a balance between these types of embeddedness, i.e. management ambidexterity. Japanese GTCs have begun to formulate new strategies aimed at changing the relationship between headquarters and foreign subsidiaries. In addition, it is necessary for Japanese MNCs to develop a new type of international talent to facilitate the development of new businesses in foreign countries. Japanese GTCs in particular have focused on developing young employees with entrepreneurial skills and collaborative competence. These employees will play a key leadership role in fostering innovation by foreign subsidiaries of Japanese MNCs in the future. Therefore, our case study of Japanese GTCs provides useful insights for Japanese MNCs in the manufacturing industry.

In sum, we identify some contributions of this study to the field of international business development by Japanese MNCs. First, this study focused on explorative activities by Japanese MNCs from the viewpoint of the dual embeddedness of a foreign subsidiary. It is very important for Japanese MNCs to undertake explorative activity to develop new businesses or products in emerging countries. Japanese MNCs in the manufacturing industry have traditionally paid more attention to exploitative activity, rather than explorative activity. It is undeniable that exploitative activity is important for Japanese MNCs, but it is also vital for Japanese MNCs, including manufacturers, to address explorative activity in their search for sustainable growth in the future.

It is also necessary for Japanese MNCs to build close relationships with local actors and collaborate with them to develop new businesses in emerging countries. However, the reality is that a foreign subsidiary is always confronting with dual embeddedness, i.e. both intra-corporate embeddedness and local embeddedness. To undertake such explorative business development, Japanese MNCs need to decrease the level of intra-corporate embeddedness, and at the same time need to increase the level of local embeddedness. By conducting dual embeddedness management properly, Japanese MNCs could avoid organizational inertia, which excessively depends on exploitative activities, such as continuous improvement activities.

Further, to undertake such explorative business development, Japanese MNCs need to develop a new type of international talent with entrepreneurial skills and the ability to collaborate with local people from different cultures. As almost all Japanese expatriates have acted as faithful implementers of strategies formulated at the headquarters in Japan, or as coordinators between headquarters and their foreign subsidiaries, many Japanese researchers have focused on the study of these people. However, in this study, we have focused on talented international staff such as entrepreneurs and boundary spanners, who will play an increasing role in Japanese firms' foreign subsidiaries.

Finally, there remain some limitations to our study. Firstly, our focus in the study was limited to relational embeddedness, that is dyadic relationship between organizational units. It would also be necessary to focus on dual embeddedness of Japanese foreign subsidiaries from a viewpoint from structural embeddedness. Secondly, it is needed to include interviewing to managers in local actors. These issues will be addressed in future research.

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NOTES

1 These companies' names were changed to preserve anonymity.

2 From interviews conducted at the Singaporean subsidiary on 20 March, 2013.

3 Descriptions from Gamma homepage.

4 From interviews conducted at the Singaporean subsidiary on 20 March, 2013.

5 As of February 2016.

6 This company name was changed to preserve anonymity.

7 This company name was changed to preserve anonymity.

8 Descriptions from Omega homepage.