Is There an Advantage of Foreignness? Norm-Breaking MNEs in the Japanese Financial Services Industry

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Abstract: Students of the multinational enterprise have long operated under the assumption that foreignness is a liability for the MNE. This study turns these age-old truths on their head to ask whether foreignness may also be an advantage. Drawing on recent work in new institutional theory, the study utilizes a comparative case-study research design to explore whether foreignness benefitted foreign banks introducing norm-deviant practices in the Japanese banking industry. The results suggest foreign firms faced expectations and assumptions that differed from those of local actors; as a result, foreign banks were given license to deviate and break norms beyond that of domestic competitors. Implications for current conceptualizations of foreignness, as well as insights into the competitive advantage of the MNE and drivers of subsidiary innovation are discussed.

INTRODUCTION

Ever since Hymer (1960/76), scholars have operated on the *a priori* assumption that foreignness is a stigma or liability, resulting in an alien status, outsidership and increased costs for MNE subsidiaries (Hennart, 1982, Luo & Mezias, 2002, Schmidt & Sofka, 2006, Zaheer, 1995). These assumptions have also been verified through multiple in-depth and rigorous studies of the liabilities of foreignness and its effect on performance, survival and efficiency (Chen, 2006, Eden & Miller, 2004, Mezias, 2002, Miller & Parkhe, 2002, Sofka, 2006, Zaheer & Mosakowski, 1997).

While there is little doubt that foreignness can and often does have negative effects on the MNE, this paper turns age-old assumptions on their head to ask whether foreignness might also have beneficial effects. Building on emerging research in new-institutional theory as well as international management, the paper explores whether foreignness and the associated lack of embeddedness may in fact be an *advantage* for MNEs introducing novel innovations into host country markets. Using the Japanese financial market as the empirical backdrop, the paper utilizes an in-depth comparative case study research design to contrast how foreign and domestic banks introduced loan syndication, a norm-deviant and institution-challenging lending practice, in the late 1990s.

The study finds that foreignness resulted in a specific organizational *role*, characterized by unique expectations and assumptions on the part of domestic audiences. As a result of these audience assumptions, foreign banks not only faced weaker demands for isomorphism with local practices, they were in fact actively encouraged and expected to deviate from taken-for-granted behaviors. Even after controlling for internal capabilities, skills and experiences, the study thus finds that foreignness granted MNE subsidiaries a *license to innovate* beyond the purview of domestic actors. Foreignness thus served as an *advantage*, enabling multinational firms to push innovation boundaries further, and with less costs, than their domestic competitors.

BACKGROUND AND THEORY REVIEW

Although Hymer (1960/76) was the first to discuss the "stigma of being foreign", the concept of foreignness itself was introduced by Zaheer (1995) in her seminal study of Japanese and U.S. currency trading operations. While Zaheer (1995) initially denoted the effects of foreignness as those due to operating abroad (including for example spatial distance, home-country regulations, a lack of local knowledge and local acceptance), she subsequently suggested foreignness specifically refers to a foreign firm's "network position in the host country and its linkages to important actors" as well as its "distance from cognitive, normative and regulative domains of the local institutional environment…" (Zaheer, 2002:351-352).

By linking foreignness to the regulative, normative and cognitive aspects of host country institutional contexts, Zaheer's "sociological approach to foreignness" (Luo & Mezias, 2002) places particular emphasis on non-market factors, including relationships, expectations, norms and culture, that often impact MNE subsidiary operations in host country institutional settings. In contrast to transaction scholars' exclusive emphasis on market structure and contracts, this approach recognizes the MNE subsidiary as a social entity, interacting with the norms, cultures and taken-for-granted practices institutionalized in host country settings (Westney, 1993).

THE LIABILITY OF FOREIGNNESS

In line with a sociological approach, a number of scholars have suggested foreignness is a liability due to its impact on the MNE subsidiary's *isomorphism* with local institutional settings (Rosenzweig & Singh, 1991, Zaheer & Mosakowski, 1997). Drawing on new institutional theory (DiMaggio & Powell, 1983; Boxenbaum & Jonsson, 2008), international management theorists have suggested foreign subsidiaries face particularly significant pressures for conformity with host country institutions. This pressures is both due to the uncertainties inherent in foreign direct investment (Rosenzweig & Singh 1991), and because local actors often have less information or even unfavorable stereotypes about the MNE, resulting in a need for even greater conformity and institutional alignment (Kostova & Zaheer, 1999). Kostova and Roth for example note that "since it is vital for an MNE to achieve and maintain legitimacy in all its environments, it will experience the pressure to adapt local practices and become isomorphic with the local institutional context." (2002:215).

Due to their linkages to home or third country institutional settings, however, MNE subsidiaries are often either unable or unwilling to align their organizational structures and practices with the norms and behaviors of the host country (Ferner, Almond, & Colling, 2005, Kostova & Roth, 2002, Xu & Shenkar, 2002). The resulting "alien" status (c.f. Hennart, 1982) renders the MNE a "stranger in a strange land" (Eden & Miller, 2004); in particular, the lack of isomorphism reduces the *legitimacy* of the MNE subsidiary, effectively excluding it from crucial host country resources, markets and knowledge networks (Eden & Miller, 2004, Zaheer & Mosakowski, 1997).

Moreover, legitimacy constraints arise not only due to a lack of isomorphism on the part of the MNE subsidiary, but also because of local actors' beliefs and assumptions. Kostova & Zaheer (1999) point out for example that local audiences may harbor negative stereotypes and biases against MNEs, or actively seek to use them as scapegoats for political purposes. These domestically-driven illegitimacy effects may hence continue despite the subsidiary's active to adopt local practices and learn about host country norms, cultures and values (c.f. Ferner, Almond, & Colling, 2005, Henisz & Delios, 2002, Petersen & Pedersen, 2002). As Hymer (1960/76) noted, multinational firms may master the local language and come to understand domestic regulatory frameworks, but the “stigma of being foreign” will never disappear completely. Foreignness is hence a unique difference in “kind” that sets the MNE apart from purely domestic organizations, rendering it a more or less permanent outsider in host country milieus (c.f. Westney & Zaheer, 2001).

RELAXING ASSUMPTIONS OF ISOMORPHISM: PLURALITY, HETEROGENEITY AND ORGANIZATIONAL ROLES IN INSTITUTIONAL SETTINGS

Building on the above theoretical arguments, a number of studies have empirically investigated the impact of foreignness on various aspects of the MNE subsidiary, including efficiency (Miller & Parkhe, 2002, Miller & Richards, 2002), survival (Zaheer & Mosakowski, 1997) and a host of performance-related variables (Insch & Miller, 2005, Kostova & Roth, 2002, Mezias, 2002, Nachum, 2003, Schmidt & Sofka, 2006). The vast majority of these have found substantial support for the existence of LOF; indeed, there is little doubt that foreignness can often does have a negative impact on MNE subsidiaries.

At the same time, however, new-institutional theory itself has come to relax its underlying assumptions of isomorphism and conformity, noting that organizations have discretion in the degree and extent to which they adapt to local norms, practices and behaviors (Goodrick & Salancik, 1996). Moreover, scholars have noted that organizational environments provide room for heterogeneity and plurality (Glynn, Barr, & Dacin, 2000). Organizations hence inhabit specific roles, status positions and identity niches, even within the same organizational setting (Dobrev & Barnett, 2005, Kuilman, 2007, Phillips & Zuckerman, 2001, Polos, Hannan, & Carroll, 2002).

RESEARCH GAP AND PURPOSE OF THE STUDY

These insights are important for international management scholars because they call into question the prevailing assumption that foreignness is necessarily (and only) equated with disadvantages. While foreignness may indeed result in an alien or outside status, recent research in organization theory suggests this is not by necessity a source of illegitimacy. Kostova & Roth (2002) have noted as much, suggesting foreignness may serve to "buffer" the MNE from pressures for isomorphism (c.f. Kostova, Roth, & Dacin, 2008). In one of the few in-depth explorations of foreignness itself, Brannen (2004) finds that the effects of foreignness were more complex than previously allowed for, providing both advantages and disadvantages, depending on the local institutional context.

Emerging research in organization theory also suggests foreignness may potentially be *advantageous* for the MNE subsidiary. Leblebici *et al* (1991) have for example found that weakly embedded organizations located on the fringe of institutional environments find it *easier* to adopt novel practices, strategies and technologies than their more centrally embedded competitors. Palmer and Barber (2001) in turn find that actors with weak connections to elite social networks were more likely to adopt controversial new financing practices. Jonsson and Regnér (2009) display how norms and expectations assigned to different actors act as varying barriers to entry in the mutual fund market.

Taken together, these recent findings pose an interesting and novel question to international management theorists: given that foreign firms are often weakly embedded in local networks, viewed as outsiders and subject to specific normative expectations and assumptions (Eden & Miller, 2004, Kostova & Zaheer, 1999, Schmidt & Sofka, 2006), might this alien and outsider status also be an *advantage*, specifically when introducing novel and norm-deviant practices to the local market? This question is especially important given that MNEs often enter host countries with the aim of introducing novel technologies, routines or strategies that differ considerably from those of the host country. Taken together, the goal of this study is hence to explore *if and why foreignness may act as an advantage for MNE subsidiaries introducing norm-breaking practices into host countries institutional settings.*

RESEARCH DESIGN AND METHODS

To explore whether and why foreignness might be an advantage in norm-deviant action, I utilized a comparative case study research design to study the introduction of loan syndication, a novel lending format, into the Japanese banking industry. The case study method was chosen because it enables an emphasis on micro-level mechanisms and contextual factors; these in turn aid in developing and refining under-researched concepts (Eisenhardt, 1989, Gerring, 2004, Langley, 1999). The comparative approach is not only highly effective in generating new theoretical insight, it is also a basic necessity when exploring foreignness which, by definition, is a relative concept (Mezias, 2002). To increase validity I augmented the primary organization-level comparative case study with an industry level study, examining the overall evolution and development of the loan syndication industry from an historical perspective. A combined micro and macro-level approach hence allowed me to trace both the overall adoption of loan syndication in foreign and Japanese banking populations, as well explore the micro-level mechanisms underlying this adoption pattern. The time-frame of the comparative population-based study stretched from 1983 to 2006, thereby encompassing the full data of all known loan syndications to Japanese firms. The time frame for the firm-level case studies spanned from the pre-introductory stages of loan syndication in 1995 to the full development of the practice in 2006.

EMPIRICAL SETTING

Loan syndication was selected as the research setting primarily because it signified a radical and norm-deviant practice, departing from pre-existing Japanese banking practices. Specifically, loan syndication is a lending format wherein multiple banks jointly lend to a single corporate borrower. The syndication is managed by a bookrunner or lead arranger who’s revenues are driven primarily by fees, as opposed to interest. Loans are syndicated out by the bookrunner to various participants in indivdual pieces, also known as tranches; the tranche system enables individual banks and financial institutions to diversify their portfolio risks. Tranches can also be traded on a secondary market to further balance loan portfolios and reduce risk.

In contrast to loan syndication, bilateral ties between individual borrowers and customers characterized the traditional Japanese corporate lending format, also known as the main bank system. Under the main bank system, loans were never shared among financial institutions, nor where they traded on secondary markets. Part of the reason for this was that the loans themselves were viewed as treasures and assets, rather than debt: while loans only generated direct revenues in the form of interest income (as opposed to fees), they also cemented the bank's status and relationship with customers, resulting in greater auxiliary businesses and extra revenue from for example M&A advisory, consumer banking, etc.

As Table 1 below shows, loan syndication and the main banking system differed along several dimensions, including the number of lenders, source of revenues, the status of loans on balance sheets, and the extent of secondary trading. As the table clearly indicates, loan syndication offered a considerably norm-deviant practice when first introduced to Japan.

--- Table 1 goes here ---

A second reason for choosing loan syndication as the empirical focus subject is that it controls for confounding firm-specific factors that often explain differences in the ability to introduce new practices. Specifically, Japanese banks had been active on the international loan syndication market for several decades before it was introduced in their home market (Seo, 2004). In fact, by the end of the 1980s they were some of the biggest bookrunners in the international loan syndicaiton market; moreover, this participation included not only major Japanese banks but also smaller institutions and regional lenders (Edman, 2009). Coupled with the fact that loan syndication itself exhibits relatively low technical barriers to entry, especially in comparison to other complex financial products such as derivatives and options, this indicates that the Japanese banks' internal capabilities, knowledge and experience of loan syndication was hence equal, if not superior, to that of foreign banks.

Finally, Japan was chosen as the country context because it reduces confounding effects of MNE economic and political clout on adoption behavior (c.f. Rosenzweig & Singh, 1991) and because its institutions are significantly different from that of Europe and the U.S., the homes of the majority of foreign banks; as a result, it constitutes an extreme case study (Yin, 1994).

CASE SELECTION STRATEGIES

The case studies focused on the adoption of loan syndication at three organizations: the wholly owned Japanese subsidiary of a foreign bank (Global Bank); a Japanese-owned domestic bank (Yamato Japan), and a foreign-owned domestic Japanese bank (New Bank). By using a theoretical replication logic and selecting on foreignness I increased variance in the key variable of analysis, thereby increasing validity of the findings (King, Keohane, & Verba, 1994). In addition to these primary units of analysis, I also used a literal replication logic to select secondary units of analysis (i.e. other foreign, domestic and foreign-owned domestic banks); these were used as pilot studies and for validation of initial results. Table 2 contrasts the three primary analysis organizations while Figure 1 gives an overview of the case selection logic.

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DATA SOURCES.

The data collection was primary made up of first-hand interviews with bank managers, loan officers and investment bankers involved in the introduction of loan syndication. Potential organizational informants were identified through initial pilot interviews and a snowball sampling process. Relying on my previous working experience in the Tokyo financial industry, as well as my foreign identity, I built up close relationships with informants over the span of two years, resulting in significant access to organizations and their employees. Because the introduction of loan syndication took place relatively recently I was able to identify and interview most of the major players involved in the introduction of the new practice, both foreign and Japanese. In all, I conducted 78 interviews over the span of two years, both in English and Japanese. Whenever possible, the interviews were recorded, transcribed and sent to respondents for validation. The interviews were augmented with archival data (including company documents, annual reports, presentations and media publications) as well as an extensive data set on 10,415 loan syndications spanning roughly 23 years.

DATA ANALYSIS

Data points from interviews and archival sources were continuously coded and classified into categories using a grounded theory approach (Fendt & Sachs, 2008). The emergent categories were in turn combined to form narrative case studies, detailing each firm's adoption process. This classification and coding process took place throughout the data collection processes, enabling me to address and validate emergent findings with informants during interviews. As the marginal returns of further data collection dwindled and theoretical saturation was reached, I finalized the case studies and submitted them to informants for validation.

After being approved, the individual case studies were used to develop process-models describing how each bank adopted and implemented loan syndication. In the final, comparative step, I compared process models across firms to analyze how and why different levels of foreignness impacted their adoption and implementation behavior. Because I sought to understand the effects of foreignness, I primarily focused on contrasting findings from Global and Yamato; as a "semi-foreign" entity, Foreign Bank was used as a foil to heighten validity and accentuate specific differences between the two entities. The analysis of the data resulted in a conceptual framework, suggesting describing how foreignness both enables and constrains MNE subsidiary action in host country institutional settings.

EMPIRICAL FINDINGS

As noted above, loan syndication constituted a norm-deviant practice since it differed considerably from the taken-for-granted practices and norms of the main-bank system. Previous scholarship has suggested norm-deviant actions might increase illegitimacy costs for the MNE subsidiary, especially considering that foreign firms are often perceived as outsiders and institutional deviants to begin with (Kostova & Zaheer, 1999). By extension, we might expect foreign firms to be relatively late adopters of loan syndication, since early adoption would risk increasing their illegitimacy in the host country. As indicated in Figure 2, however, foreign banks as a population were in fact *early* adopters of loan syndication; moreover, this early adoption was despite the fact that Japanese banks had considerable experience of loan syndication, and that the practice had low technical requirements.

--- Figure 2 here ---

The findings of the case study suggest instead that the foreign banks' early adoption of loan syndication was primarily driven by *foreignness* and its effects on barriers to innovation, as highlighted in Figure 3. Specifically, the findings suggest foreignness leads to an *internal focus on innovation and new product development*, as well as an *external image as pioneer and boundary breaker*. These organizational traits in turn *lowered normative barriers* to adopting the norm-breaking practice, enabling foreign banks to introduce the novel practice earlier, faster and with fewere costs than their domestic competitors. As the emphasized line in Figure 3 indicates, these beneficial and deviance-enhancing effects were particularly driven by the banks' external images. Below I discuss and outline these findings in greater detail.

--- Figure 3 goes here ---

INTERNAL ATTRIBUTES AND EXTERNAL ATTRIBUTIONS OF FOCAL FIRMS

As discussed above, scholars examining foreignness have emphasized both its internal attributes (e.g. routines, norms and practices inherited from the home country) and its external attributions (e.g. the assumptions and expectations assigned to the firm by local audiences). An initial step in understanding whether and why foreignness garners MNEs an advantage in norm-breaking hence calls for exploring the specific internal attributes and external attributions of the three focal firms.

As Table 2 below indicates, the firms displayed several differences, both internally and externally. To begin with, Global Bank's internal routines were heavily focused towards innovation and new-product development, as opposed to leveraging and extending existing market positions. One manager noted for example that “as a foreign bank, we had to offer unique products and services because we looked different, were seen as different. Any foreign bank, you had to focus on things Japanese banks would not do.” Loan syndication hence constituted the latest in a long line of niche products, consistently aimed at innovating in new market segments where Japanese banks were inactive.

As part of this emphasis on innovation, Global Bank maintained a strict emphasis on financial metrics and technical measures of return; notably, these were given priority over long-standing client relationships when determining whether to start, expand or terminate existing products lines. Global Banks’ internal attributes are in stark contrast to that of the Japanese Yamato Bank which placed particular emphasis on expanding existing product segments. As part of the normative-structure of the main bank system, the bank put particular emphasis on maintaining existing relationships with long-standing clients.

The internal attributes of Global and Yamato Bank were reflected in the external audiences and competitors’ assumptions. Global Bank, along with other foreign entities, was seen as innovator and pioneer, a place to go for “sexy products”. Yamato Bank and other Japanese financial entities, by contrast, were viewed as pillars of the financial establishment, safe entities that customers could rely on. Other banks used as informal units of analysis corresponded to these internal and external characteristics. In the words of one manager “foreign and Japanese banks occupy completely different roles in the local market.”

New Bank presented an interesting cross-over between foreign and Japanese banks. On the one hand, the organization displayed internal routines and practices in line with Global Bank; this was unsurprising given that the many of its employees were formerly managers at Global Bank and that its owners were international investors based in New York. As a Japanese bank headquartered in Tokyo, however, New Bank faced was viewed primarily as a stable part of the main-bank system, rather than as novel innovator. Local audience expectations on New Bank were hence close to that of Yamato Bank than Global Bank.

---- Table 3 goes here ----

Table two above thus suggests the three banks faced different levels of foreignness, both internally and externally; the question then is how, and why, these various organizational attributes impacted their ability to take norm-deviant action.

INTERNAL REACTIONS TO NORM-DEVIANCE

Table 3 below contrasts the internal reactions to the introduction of loan syndication at the three banks. As the table indicates, internal staff at Global Bank were initially confused and wary of the novel product, however they were quick to embrace loan syndication once they understood its functions and advantages. As one manager noted: “…some [staff] said ‘are we bringing in other banks to deal with the clients now? Introducing them to other banks?' But they made fees, they loved that, so it wasn't a problem for them at all."

The internal support for loan syndication at Global Bank was in stark contrast to the opposition Yamato Bank faced when it attempted to introduce loan syndication during the same period. Yamato's efforts were spearheaded by managers returning from the bank's London and New York subsidiaries, aiming to promote better portfolio management practices. The efforts of these managers were however met with great skepticism: relationship managers steeped in the practices and norms of the dominant main-bank system balked at the idea of charging fees, sharing loans with rival banks and trading loans on a secondary market. As noted, the main-bank system built upon the notion that loans were valuable assets and treasures, cementing relationships to customers and increasing the bank's standing; in the eyes of relationship managers and loan officers, reducing the lending amount and selling off outstanding loans was thus tantamount to giving up core strategic assets.

Relationship managers complained: "Why do I have to give my loan to somebody else? This is the fruit of my relationship, why do I have to give my precious fruit to other banks? That is completely ridiculous." Senior managers at Yamato Bank similarly balked at the new lending format which they feared would undermine the bank's position in the local market. Senior management at Global Bank, by contrast, were supportive of the new effort and encouraged its development.

At New Bank, the foreign-owned Japanese financial institution, internal support was largely in-line with that of Global Bank: relationship managers were supportive of the new practice and actively sought to employ it when dealing with external customers. This similarity between the two banks is unsurprising, given that many of the employees and managers of New Bank were previously employed at Global and that the bank itself was owned by investors, many of them located in New York.

--- Table 4 goes here ----

EXTERNAL REACTIONS TO NORM-DEVIANCE

The stark difference in internal support between Global Bank and Yamato Bank is perhaps unsurprising, given that the former organization had long operated on routines and practices in line with its home country, the United States, where loan syndication was well accepted. Although Yamato bank had for many years maintained subsidiaries in the United States, its headquarter operations and dominant practices were firmly cemented in the norms, assumptions and institutionalized practices of the main bank system.

More interestingly, however, is the difference in the external reactions to the banks' norm-deviant behaviors. As Table 4 below indicates, Global Bank faced some initial difficulty convincing external customers and clients to try loan syndication; once they came to understand the logic and value behind the practice, however, local customers voiced little opposition or dissent to the new practice. This acceptance was despite that fact that loan syndication went against many of the practices of the main-bank system. For example, the main-bank system emphasized keeping the majority of loans on banks' balance sheets as possible, but Global Bank often syndicated out the majority of its lending, never keeping more than 10% of loans on its books. Despite this clear violation of institutionalized practices, customers agreed to loan syndications. A manager noted "we are pretty clear, we say 'we're going to sell this down to as low as possible', and frankly [the customers] couldn't care less, they are fine with that."

In contrast, Yamato Bank's efforts to introduce the new practice faced considerable opposition among external audiences. Valued corporate customers with long histories at Yamato balked at the idea that the bank might sell off their loans to unknown third parties with whom they had few if any relationships. Such actions were interpreted as abandoning long-standing relationships and signaling that there was something wrong with the finances of the client company. A Yamato manager described a typical response from customers: "Why is [Yamato] telling me to borrow money from somebody else? As my main bank you are telling me have to deal with banks I have never seen before? I don't know those banks, I don't have a relationship with them – I can't deal with them. I rely on you to give me 100% of the loan. This is the commitment you should show to me as a main bank!"

--- Table 5 goes here ---

Borrowers were not the only external actors skeptical of loan syndication; successful syndications required the participation by smaller lenders, including regional banks and financial cooperatives; many of these institutions however viewed loan syndication with deep suspicion. Under the main-bank system, no bank would willingly give up its treasured loans to rivals; as a result, the smaller lenders suspected loan syndication was a way for larger banks like Yamato to unload non-performing assets on smaller financial institutions. A Yamato manager recalled for example that "the regional banks said 'no thank you'. They thought 'Why are you giving us loans? There's something wrong with them, otherwise why would you give them to us? Loans are supposed to be held until maturity. It's weird and suspicious." Global Bank, by contrast, faced little difficulty in convincing external financers once it had established contact.

While New Bank exhibited internal routines and practices similar to that of Global Bank, external audiences largely classified it as a Japanese bank; as a result, it experienced some opposition in its attempts to introduce loan syndication. In particular, customers expected New Bank to continue the practices of its bankrupt predecessor, despite being taken-over by foreign investors. As a result, the bank was forced to "keep buying entry tickets, in the form of [normal corporate] lending" in order to be able to maintain its client relationships. Global Bank faced none of these demands among its customer base.

DIFFERENCES IN BARRIERS TO ADOPTION: KNOWLEDGE VS LEGITIMACY

Both internally and externally, Yamato Bank faced considerably greater difficulty in introducing loan syndication than Global Bank. This was despite the fact that both banks introduced the practice at roughly the same time and that the initial products introduced by both companies were roughly similar, involving syndication, fees and loan trading. Notably, Global Bank did also face initial skepticism when introducing the practice; however, this barrier was largely the result of a lack of information and *knowledge* about the product itself; A Global Bank manager noted for example that the key difficult was getting internal staff, as well as external customers to "rationally understand the product…once they understood it, it was no problem."

By contrast, the barriers to adoption faced by Yamato Bank were linked to the *legitimacy* of the product. Yamato Bank hence sustained opposition, despite continuous efforts to explain the rationality behind the practice and its advantages. As one manager recalled "I tried to convince people by giving them all the reasons and theories. But at the end I determined that ok, people cannot be convinced in theory. Theoretical talk, even though it's deadly right, people will not accept it emotionally."

Notably, even when Yamato's internal managers or external clients *understood* the idea of loan syndication, legitimacy barriers to adoption often remained. These stemmed in particular from the expectations and assumptions of main-bank patronage institutionalized under the Japanese post-war lending system. When one of Japan's largest utility companies finally agreed to conduct a syndicated loan through Yamato Bank in the fall of 1998, it did so only on the condition that the transaction be kept entirely confidential. One of Yamato Bank's managers recalled "they didn't want to destroy the order of their banking relationship. Yamato was the second bank, so it was a secret. Even now, nobody knows that they did that syndication."

IMPLICATIONS FOR OVERCOMING ADOPTION BARRIERS

The specific expectations attached to foreignness thus resulted in heterogeneous barriers to adopting loan syndication, both in kind and in degree; these differences also had a direct impact on the *costs* involved in introducing the new practice, as well as the subsequent *format* of the new practice. Because it faced little internal or external opposition to the new practice, Global Bank for example was able to set up a loan syndication fairly quickly (6 months), without any significant adaptation or extended marketing efforts. The bank simply relied on the "logically explaining" the new practice on a deal-by-deal basis.

By contrast, the entrenched internal and external opposition facing Yamato forced the bank to invest considerable time and effort towards convincing customers and staff of the legitimacy of the new practice. Yamato embarked on a what one manager called a nation-wide "enlightenment" campaign to assure customers loan syndication would not fundamentally change traditional ways of doing business. The bank also adapted its original loan syndication product to fit existing practices and expectations; syndications were for example initially limited to banks with whom customers had pre-existing relationships and Yamato increased its share of syndications, often taking close to 60% of the total on its own books. Fees were lowered to accommodate client expectations and loan trading was subject to client-approval. Internally, relationship managers were given final decisions over which loans were to be syndicated out.

These adaptations and enlightenment strategies took both time and effort; despite having similar internal knowledge and experience, Yamato Bank did not establish a distinct loan syndication division and gain full acceptance for the practice until 2002, nearly 5 years after starting its efforts. As a Japanese financial institution, New Bank was also forced to water down its initial offerings to fit external expectations, albeit not to the level of Yamato Bank. Although the bank sought to maintain a strict emphasis on fees, it did grant reduced rates when necessary. In contrast to Yamato (but in similarity to Global), loans were controlled by the portfolio management division at New Bank. Because of local audience expectations, New Bank's share of the total lending amount was also higher than that of Global Bank.

Table 5 below combines the previous insights, mapping how variations in internal and external organizational traits resulted in different barriers to norm-breaking and the adoption of loan syndication at the three banks. Due to these different barriers, the efforts and costs devoted to gaining legitimacy for loan syndication differed among the three banks. In particular, Global Bank was able to introduce the product quickly, while both Yamato Bank and New Bank took considerably longer, with greater adaptation. The table hence offers a micro-level process explanation for why foreign banks were able to be first-movers and adopt loan syndication earlier than their domestic counterparts.

--- Table 6 goes here ---

The empirical findings strongly suggest foreignness resulted in specific internal and external organizational traits; notably, these were due not only to skills and capabilities inherited from the MNC, but also to expectations and assumptions of local audiences. Global Bank, and many other non-domestic firms, were viewed as norm-breaking simply because they were foreign entities.

These specific attributes and attributions in turn resulted in lower barriers to adopting norm-breaking behaviors and practices. Because of their outsider positions, foreign firms experience less opposition to new practices, both internally and externally. As a result, foreign firms are able to implement new practices faster, and with less adaptation costs, than their domestic competitors. Taken together, the process model presented in Figure 3 above offers an understanding of the mechanisms that underlie the *advantage* of foreignness in introducing norm-deviant practices.

DISCUSSION

The findings presented above offer extensions to extant empirical and theoretical work in several ways. First and foremost, the findings offer an explanation for why and how foreignness may be an advantage to the multinational firm. Notably, this explanation is based on *empirical findings* – it thus furthers and adds weigh to previous theoretical discussions of the advantages of foreigness (Kostova & Zaheer, 1999; Kostova *et al*, 2008). However, it also extends our theoretical concept of foreignness by identifying advantages that may exist *regardless* of the MNE’s nationality or firm-specific traits. By demonstrating how an *alien* or *outsider* status can be beneficial in and of itself, the findings demonstrate the importance of separating the effects of *foreignness* from the effects of *country-of-origin*.

FOREIGNNESS AS AN EXTERNAL ROLE EXPECTATION

Previous research has suggested foreign and domestic firms build strategic advantages based on firm-specific endowments, skills and assets (Buckley & Casson, 1976, Caves, 1996, Dunning, 1980, Kogut & Zander, 1993). From this perspective, we might be tempted to explain Global Bank’s early entry as a result of its firm-specific internal attributes and skills. A closer look suggests, however, that the differences in the introduction and implementation of loan syndication lay not in skills or capabilities; loan syndication itself is relatively easy to master and both banks had extensive experience of the practice from international markets. Rather, the main difference lay in the *expectations* and *assumptions* of local audiences.

Customers, competitors and banks themselves for exampled described foreign financial institutions as “individualistic” and “niche players”, with strategies that were “for their own profit, without caring about market creation.” Domestic financial institutions, by contrast, were expected to “build infrastructure and develop the market” as well as “support the industry”. Foreignness can hence been seen as a kind of *unique role*, resulting in *tailor-made capabilities and skills that are beyond the purview of domestic actors*. The head of Global’s loan syndication department noted for example “we were kind of outside of the system.…we could be a common carrier in ways that Japanese banks couldn't, and we could solve political problems sometimes in a way that Japanese banks couldn't. If a customer asked us to do something, we'd be outside the system, but still respectful and viable. If a Japanese bank tried to upset the apple cart, that would be something different entirely.”

THE ADVANTAGE OF FOREIGNNESS: A LICENSE TO DEVIATE

The heterogeneous expectations attached to the role of foreignness explain why Global Bank was able to introduce the new product with relative little opposition, even among some of

Japan’s largest and most conservative customers. Domestic customers did not expect foreign banks to live up to the norms and standards dominant in the local market; in effect, this granted foreign banks a *license to break norms*. A Japanese manager working at Global Bank explained: “Customers are ok with us not taking traditional roles, that’s not what they’re looking for from [Global Bank]. Foreign banks are expected to show more interesting products…go to foreign banks for sexy products.”

The importance of external expectations is further highlighted when considering the case of New Bank. The vast majority of New Bank’s staff had previous experience from foreign banks and the international market; as a result, relationship managers and loan officers were overwhelmingly positive about the introduction of loan syndication. However, many of New Bank’s external customers, inherited from the bank’s Japanese predecessor, were skeptical of the new service and expressed reservations. They viewed New Bank as a Japanese entity and expected it to maintain traditional lending practices with a focus on volume lending and long relationships.

CONCLUSION

While the majority of extant research has built on the *a priori* assumption that foreignness is a liability, this paper adopted an inductive approach, exploring whether and why foreignness might be an advantage when introducing norm-breaking and novel practices in host country institutional settings. Building on recent findings in new institutional theory and organizational sociology, the paper finds that foreignness assigns specific expectations and assumptions to the MNE subsidiary. These expectations result in a unique role for the MNE, differentiated from that of domestic competitors. This role of foreignness grants the firm license to deviate and innovate beyond the purview of local actors. Foreignness hence acts as an advantage by enabling MNEs to push innovation boundaries in new directions. Moreover, this capability is derived primarily as a result of external audience expectations and assumptions, as opposed to internal skills and capabilities.

The findings contribute to the international management literature by demonstrating that foreignness has more than simply negative effects. While previous scholars have suggested foreignness might “buffer” MNE subsidiaries from host country pressures, (Kostova & Roth, 2002), this study is among the first to delve deeper into the mechanics of foreignness and pressures for isomorphism. By showing how outsidership and a lack of embeddedness enable innovation and norm-breaking, the study highlights the mechanics underlying the advantages of foreignness. The study hence contributes to recent calls for furthering our understanding of foreignness and its impact on the MNE (Kostova, Roth, & Dacin, 2008, Zaheer, 2002).

The results also contribute to extant knowledge of foreignness by emphasizing that *different* expectations are not necessarily synonymous with *negative* expectations. Implicitly or explicitly, the majority of extant research has assumed that if local audiences view the MNE as non-conformist, then this will also amount to a lack of legitimacy (c.f. Kostova & Roth, 2002:215). The findings however suggest that this is not necessarily the case; rather, foreign firms may be subject to specific expectations and beliefs that contain *both* unique opportunities *and* limitations that are not applicable to local competitors (Kostova, Roth, & Dacin, 2008).

Notably, the findings of this study do not deny that foreignness may have negative implications for the MNE. Rather, they suggest that these negative effects may be closely *interlinked* with subsidiary innovation and new product development. As marginal actors disadvantaged in existing markets (c.f. Schmidt & Sofka, 2006), MNE subsidiaries are potentially more likely to emphasize innovation and new product development. An additional contribution of the paper is thus that it links foreignness to investigations into subsidiary innovation.

BOUNDARY CONDITIONS, ALTERNATIVE EXPLANATIONS AND FUTURE WORK

The findings of the study are subject to a number of boundary conditions. To begin with, the study focuses on a services-based sector in one specific country environment. While this research setting was purposely chosen as an extreme case study (Yin, 1994), the findings may be less applicable to countries with less pronounced or unique institutional settings. Moreover, the findings may also be less applicable to manufacturing industries where performance results are easily measurable and hence subject to greater technical, as opposed to institutional, pressures (Powell, 1991). It is however worthwhile to emphasize that when Japanese automanufacturers entered the United States in the 1980s, their lack of social and political embeddedness allowed them to evade many of the demands placed on U.S. car manufacturers.

The case selection and research design strategies employed in this study were specifically designed to control for the confounding effect of firm-specific variables, thereby heightening validity and reducing the risk of alternative explanations. Nevertheless, the observed effects may have been caused by other factors. Global Bank's early dominance could for example have been due to its global reach and skill in loan syndication; similarly, local audience perceptions may also have been firm or country-specific, as opposed to more generally directed at foreignness itself. While it is impossible to fully rule out these factors, their existence would not negate the observed effects of foreignness. The findings clearly suggest that foreignness did have an important impact on the subsidiaries' abilities to introduce novel and norm-breaking practices in the host country.

Because this was of an exploratory nature, its findings are not codified into propositions or formal models. An important role for future empirical research is hence to delve deeper into these findings, further specifying boundary conditions and developing testable hypotheses.

Encompassing the findings into extant models and frameworks will hopefully also further future theoretical work and conceptualizations on foreignness.

GRAPHS AND FIGURES

Table 1: Loan Syndicaiton vs the Japanese Main-Bank System

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

Table 2: Comparison of Formal Empirical Units of Analysis

	Global Bank	*New Bank*	*Yamato Bank*
HQ Location	New York, USA	Tokyo, Japan	Tokyo, Japan
CEO Nationality	United States[1]	Japanese	United States
No of Employees (2007)	1,647	49,000[2]	5,245
Founded[3]	1950	1952	1950
Revenue (2007; BN JPY)	175.5	2,421.1	262.6
Earnings (2007; BN JPY)	24.6	-88.8	60.1

[1] Nationality of CEO for Global Bank denotes that of the Japanese subsidiary.
[2] Yamato Bank merged with two other banks in 2002, creating a new so-called megabank; this figure is for the total megabank. Average no. of employees prior to the merger was 8,000 in Japan.
[3] Founding is defined as the year operations started in Japan after WW2. For New Bank I used the founding date of its bankrupt predecessor.

Figure 1: Individual Case Selection Strategies

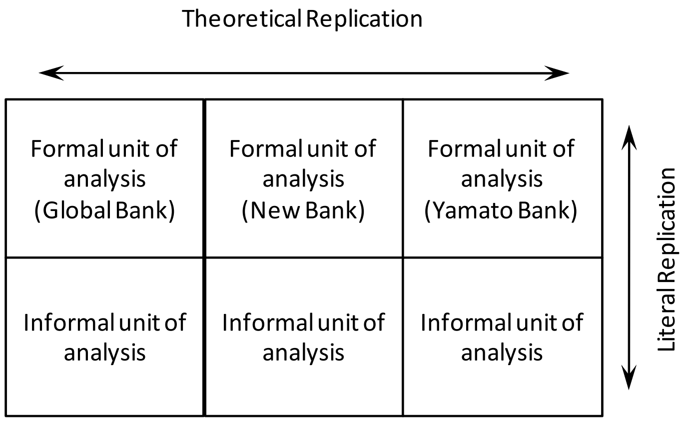
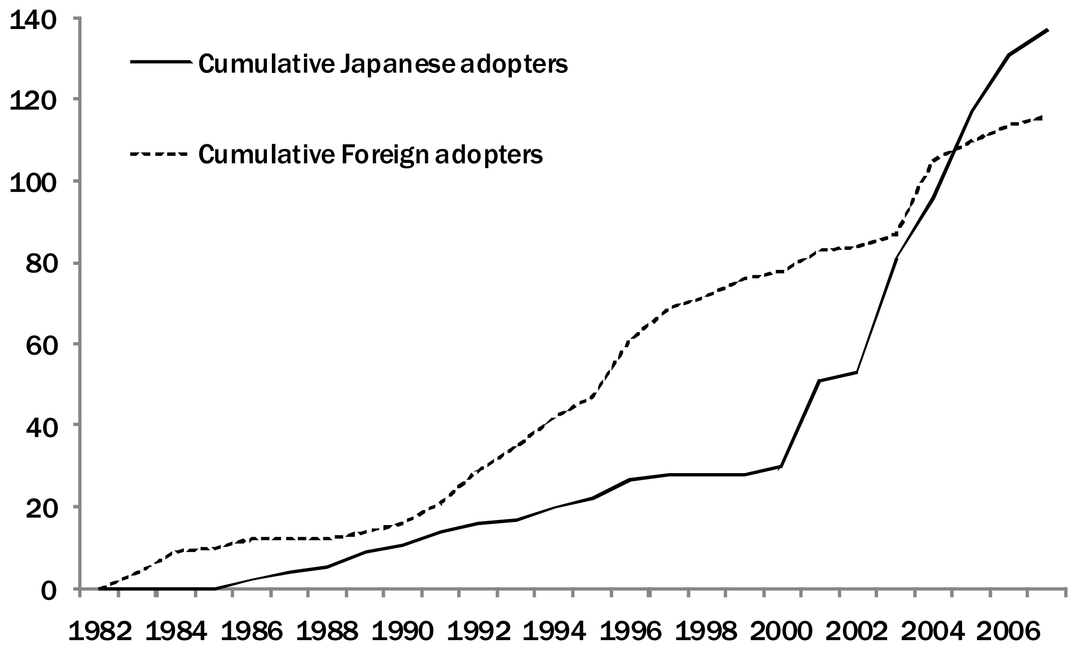


Figure 2: Cumulative Number of Bank Entering Loan Syndication (Bookrunner Basis)



Source: Thomson Financial, author's calculations

Figure 3: Foreignness and the Introduction of Norm-Deviant Practices

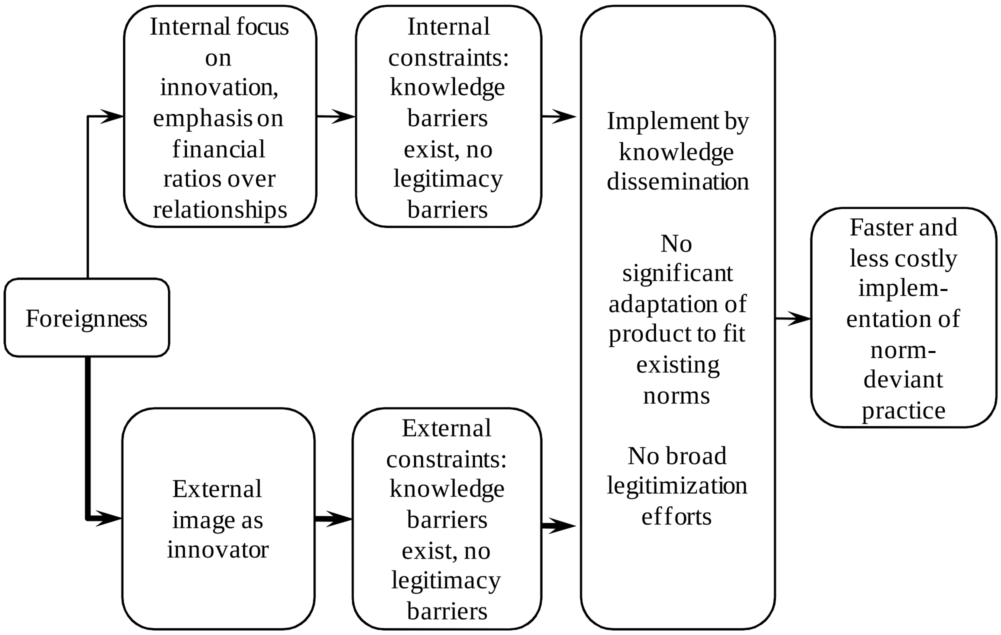


Table 3: Internal Attributes and External Attributions of Focal Firms

	Global Bank	Yamato Bank	New Bank
Internal Attributes	Innovation focused; strict adherence to financial metrics	Focus upon expanding existing markets	Focus upon innovation: ; maintaining relationships important
External Attributions	Expectations of innovative products; license to deviate from existing norms	Expectations of market leadership and product stability; strong pressures for isomorphism	Expectations of innovative products; some pressures for isomorphism

Table 4: Internal Reactions to the Introduction of Loan Syndication

	Global Bank	Yamato Bank	New Bank
Relationship managers	"that we might sell down more than RMs want us to might have been a source of tension." "..ther were mixed feelings; they didn't understand what it would mean for relationships. Some said 'are we bringing in other banks to our clients?"	"Why do I have to give my loan to somebody else? This is the fruit of my relationship; why give my precious fruit to others…ridiculous." "Loans give interest and that]s income, why would we pass them on to someone else?"	"[the RMs] were very happy because now they could sell loans to their clients better." "[New Bank] had a very low profile in the market, [people] said "[New Bank]? Can they do loan syndication?"
Senior Management	"..we had syndication loans for over 20 years, so the idea to do it in Japan was not a problem."	"[Senior management] said: "We are the bank: we have to hold all the loans; I really don't like to sell it< I really don like to syndicate it. I really don't know what you are talking about and I don't think you can do that."	"Setting up a new business is always difficult, but I had a lot of support from senior management."
Internal Barriers to Adoption	Some uncertainty/lack of understanding	Uncertainty/lack of understanding Deviance from main bank role and practices	No Significant Opposition

Table 5: External Reactions to the Introduction of Loan Syndication

	Global Bank	Yamato Bank	New Bank
Borrowers	"It was a miserable first 6 months; we were offering great deals, but it was impossible to steal clients from Japanese banks." "Sometimes clients would say 'Shouldn't you be holding more?" But this was never an issue for us?"	"...the idea of paying fees and, on top of that, asking othe banks for money, there was very little understanding for that in Japanese firms." "For customers, taking loans from a financial institution they cannot see is difficult."	"We are perceived as a Japanese bank so we are trying to find clients that are a bit more flexible." "[New Bank] is a Japanese bank, and that means you should be willing to lend at [the low] rates of Japanese banks."
Investors	"Half the battle was meeting the fn banks getting to know the people."	"There was no mentality around buying loans...that was foreign banks." "Why are you giving us loans? There's something wrong with them, otherwise whey give them to us? It's weird and suspicious."	"...to arrange a syndicated loans, we have to take some part. Otherwise lenders think the borrower is risky. To successfully complete distribution, even in a small portion, we have to take some of the debt."
External Barriers to Adoption	Lack of Understanding/some initial uncertainty	Lack of understanding/ uncertainty; Deviance from assumptions and expectations associated with the main-bank system	Some expectations of traditional lending practices

Table 6: Organizational Traits, Barriers to Adoption and Implications for Loan Syndication

	Global Bank	Yamato Bank	New Bank
Internal Attributes	Innovation focused; emphasis upon financial metrics over relationships	Focus upon expanding existing markets; emphasis upon relationships	Focus upon innovation and financial metrics; maintain relationships important
Internal Barriers to Adoption	Some uncertainty/lack of understanding	Uncertainty/lack of understanding Deviance from main bank role and practices	No Significant Opposition
External Attributions	Expectations of innovative products; license to deviate from existing norms	Expectations of market leadership and product stability; strong pressures for isomorphism	Expectations of innovation products; some pressures for isomorphism
External Barriers to Adoption	Lack of Understanding/some initial uncertainty	Lack of understanding/ uncertainty; Deviance from assumptions and expectations associated with the main-bank system	Some expectations of traditional lending practices
Organizational Response to Barriers	Educate staff and customers; little adaptation	Educate staff and customers; embarked on large-scale and costly information campaigns; started industry association; adapted product to fit customer demands and expectations	Educate staff and customers; some adaptation of product; selective client involvement
Time to full implementation	6 months	5 years	3 years

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