

Foreign Firms' Access to the Japanese Market

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Abstract:

This paper examines interrelationships among foreign firms' perceptions of market barriers related to the access, quality of inter-organisational institutions and their market commitment and performance in Japan. Our findings suggest that foreign firms that perceive a higher level of macro-level institutional barrier are likely to have an unfavourable assessment of the accessibility of the Japanese distribution system. We also found that firms with a favourable assessment of the accessibility of the Japanese distribution system are likely to develop better inter-organisational networks. Finally, our findings would suggest that firms with a higher level of commitment to and performance in Japan are characterised by a favourable assessment of the accessibility of the Japanese distribution system and better inter-organisational networks. Implications are discussed.

Keywords: Japan | perceived institutional market barriers | access to distribution systems | interorganisational institutions | market commitment and performance.

Article:

1 Introduction

Complexities in the Japanese distribution system are well-publicised (Borin et al., 1991; Czinkota and Kotabe, 2000; Grewal and Dharwadkar, 2002). The country's distribution system is described as 'complex' and 'filled with outmoded business practices' (Japan Economic Studies, 2007, p.23). The system is arguably 'incomprehensible by outsiders' (Aoyama, 2007, p.482) and Japan has long been seen as a problem market for foreign firms to enter and to deal with its distribution system. Its history is replete with cases of both foreign consumer goods companies' and of retailers' painful and frustrating failures. In the mid-1990s, the US government declared the Japanese distribution system as a nontariff barrier and a structural impediment for US-Japan trade (Aoyama, 2007). Many other countries responded in a similar manner. In retailing, the retreat of the French retailer, Carrefour, from Japan is a well-known example (Suigai, 2009).

Recently, an emerging body of literature has documented changes ongoing in the Japanese distribution system (e.g. Meyer-Ohle, 2004; Meyer-Ohle, 2007; Larke and Causton, 2005; Schaefer, 2006; Larke and Keri, 2007; Haghirian, 2007). Practical examples exist of successful foreign companies in Japan, such as H&M in the apparel industry (Tahara, 2008) or the re-entry of IKEA (Anon, 2006). Likewise, after opening its first Japanese store in 1999, COSTCO expanded to four stores in just four years (Japan Economic Studies, 2007). Borin et al. (1991) noted some 20 years ago: "...foreign shampoos are not only receiving comparable level of distribution and in-store merchandising support, but, in many cases receive favourable levels relative to the domestic brands" (pp.104–106).

Scholars have cited relaxation in the Law for Large-scale Retail Stores in the 1990s as a major trigger for such changes. The deregulation of Japanese laws, especially the Large Retail Store Law undoubtedly eased the opening of new stores (Meyer-Ohle, 2002). Edelman and Suchman (1997), however, note that "legal rules 'cause' the organisational practices (or vice versa) is, at best, a gross simplification" (p.502). In this regard, quality of network relationship with business partners deserves special mention in the Japanese context. Observers have noted that finding prospective agents on the basis of 'cold calls' is a highly ineffective approach in the country. The Japanese often prefer to do business with a party only when the party has been introduced properly and met face-to-face (Japan Economic Studies, 2007).

It would be erroneous to assume that new laws governing the distribution system would automatically make it easier for foreign companies to succeed in Japan. This is because a distribution system involves complex, inter-organisational, and highly interdependent relationships among various firms. Researchers have called for greater attention to the factors that are likely to drive changes in the Japanese distribution system (Larke and Causton, 2007).

From the above observations we can see that analyses of macro-level and intermediate institutions provide necessary and important insights into the Japanese distribution system. Macro-level institutional barriers include regulatory frameworks, roles of government agencies, and culture and social norms. This construct is measured with items like: "Legal regulations were difficult barriers". We refer to this construct as perceived institutional market barriers to enter Japan (abbreviated as PIMB, 5 items as stated in the Appendix A).

Our second construct is access to distribution systems (abbreviated as ACCESS, 4 items as stated in Appendix A). In this construct, we measure perceptions about access and the complexity of the distribution system. This construct is measured on a more macro level basis as it includes perceptions of managers considering the Japanese situation in general, not necessarily regarding their own firm. One of the items, for instance, is: "For foreign companies it has become easier to sell products in Japan". Also trade/professional associations and industry bodies (Morgan, 1997) as intermediate institutions are purposeful forms of arrangements created between the market and the state by economic actors concerned with the governance of the distribution system (Amin, 1999; Mulgan, 1994). An appropriate example to investigate the access would be to focus on Japan's multinational trading companies, *sōgō shōsha*, which were formed to distribute the risks associated with large and complex transactions and to reduce transaction costs through scale economies and efficient use of capital. These intermediate institutions affect foreign firms' access to distribution systems in the Japanese market.

Our third construct concerns the focal firm's quality of inter-organisational institutions with their direct business partners (abbreviated as INTORG, 7 items as stated in Appendix A). We investigate this construct on a micro level asking questions on a firm level basis. This construct measures the extent to which the focal firm is connected within the Japanese distribution network. For instance, one of the items is: "The experiences of our direct business partners in Japan are a valuable support for accomplishing our aims".

Finally, our fourth construct is the focal firm's market commitment and performance (abbreviated as MACP, 8 items as stated in Appendix A). We measure this construct with items like: "Our sales and profit aims have been achieved or will be achieved in the near future".

In light of the above observations, this paper empirically examines the following research questions:

Research Question 1: How does a foreign firm's perception of macro-level institutional barriers (PIMB) relate to its access to intermediate institutions (ACCESS), quality of interorganisational institutions (INTORG) and its level of commitment to and performance in the Japanese market (MACP)? (leading to H₁–H₃)

Research Question 2: How does access to distribution systems (ACCESS) influence the quality of interorganisational institutions (INTORG) and its level of commitment to and performance in the market (MACP)? (leading to H₄ and H₅)

Research Question 3: How does a foreign firm's quality of interorganizational institutions (INTORG) affect the level of commitment to and performance in the Japanese market (MACP)? (leading to H₆)

The paper is structured as follows. We proceed by first providing theoretical background for the above questions leading to the development of some hypotheses. This is followed by the description of the methodology, the analysis and the findings of a preliminary empirical study. The final section discusses implications of the empirical findings for management practices and points out directions for further research.

2 Theoretical background

Market entry and market penetration are among the most researched areas in international management and numerous concepts and theoretical approaches have been applied for explanatory purposes (as e.g. the meta-analysis of Canabal and White III, 2008).

The major approach used here is institutional theory, which covers de-institutionalisation and re-institutionalisation of social practices, cultural values and beliefs (North, 1990). North (1990) defines institutions as "macro-level rules of the game" (p.27). Institutions consist of 'formal constraints (rules, laws, constitutions), informal constraints (norms of behaviour, conventions, and self-imposed codes of conduct), and their enforcement characteristics' (North, 1996, p.344). Institutional theory is also described as 'a theory of legitimacy seeking' (Dickson et al., 2004,

p.81). Legitimacy associated with the above constraints can be mapped with 'legally sanctioned behaviour', 'morally governed behaviour' and 'recognisable, taken-for-granted behaviour' (Scott et al., 2000, p.238) respectively.

It is important to note that inter-organisational networks (e.g. business networks) and competition are also driving forces behind an organisation's input, output, as well as beliefs, norms and traditions (Dickson et al., 2004; Kimberly, 1981). Organisations are embedded within larger inter-organisational networks, which generate formal and informal pressures (Pfeffer, 1981). For instance, companies often imitate host country firms' or other established competitors' behaviour to legitimise their activities thus acting in a polycentric way (Wind et al., 1973). Likewise, Abrahamson and Fombrun (1994) argue that the structure of inter-organisational value-added networks "both induces and reflects the existence and persistence of more homogeneous macro-cultural beliefs about boundaries, reputations, and strategic issues" (p.730), which may have important consequences for "inter-organisational inertia and change, innovation, diffusion, and strategic similarity" (p.749).

In this paper, we argue in favour of institutional inertia and state that changes in institutions occur very slowly (Clark and Soulsby, 1999; Ibrahim and Galt, 2002; Zweynert and Goldschmidt, 2006). North (1990, p.6) further noted that 'although formal rules may change overnight as the result of political and judicial decisions, informal constraints embodied in customs, traditions, and codes of conduct are much more impervious to deliberate policies'. As to foreign market accessibility to the distribution system, the real issue thus concerns overcoming institutional inertia related to informal institutions.

That is not to say, however, that institutions do not change at all (Parto, 2005). As we have seen, laws concerning the Japanese distribution system were amended and there are visible efforts by the Japanese government to open up the distribution system to foreign firms. Opening the distribution system to foreign firms would lead to positive competitive effects such as more choices and better product offerings. A fiercer competition would not only positively influence prices for Japanese consumers, but could also encourage Japanese firms to become lean and stronger (Tahara and Inoue, 2009 a).

Network, process and learning approaches are some of the other concepts that are applicable to the quality of business network relationships. The network approach explains foreign market entry and penetration through the establishment of 'docking nodes' in existing and sometimes overlapping network relationships in particular markets (Johanson and Mattsson, 1989). Cooperation with all market players including distributors becomes crucial with external influences playing an important role in a firm's internationalisation process (Welch et al., 1998; Hadley and Wilson, 2003). In this regard, compared to the West, the distinguishing mark of the Japanese distribution system is that foreign firms are less likely to be included in the networks.

There may be a real and/or perceived difficulty to enter rather closed networks with different rules and values such as the Japanese distribution system. Process considerations, as earlier discussed by Johanson and Vahlne (1977), are loosely connected with network approaches. The international development of companies in several stages from export to overseas production represents a gradual internationalisation process and it can become more elaborated if the

network aspect is integrated (Jansson and Sandberg, 2008). This becomes more relevant with higher perceived psychic distance of the foreign market (Prime et al., 2009). For Western companies, the Japanese distribution system is likely to be characterised by a higher psychic distance and hence would require deeper knowledge.

3 Hypotheses

In this section, we propose several hypotheses that might explain relationships among our various constructs: perceived institutional market barriers (PIMB) at a macro level of institutions to enter the Japanese market, access to distribution systems (ACCESS), quality of interorganisational institutions (INTORG) and finally the level of market commitment and performance (MACP). The empirical analysis focuses first on direct interrelationships of perceived institutional market barriers (PIMB) to market commitment and performance (MACP). Also the effects of access to distribution systems (ACCESS) and quality of interorganisational institutions (INTORG) on perceived institutional market barriers (PIMB) and market commitment and performance (MACP) are analysed. Furthermore, we investigate if access to distribution systems (ACCESS) affects the quality of inter-organisational institutions (INTORG).

3.1 The effect of perceived institutional market barriers on the quality of interorganisational institutions, access to distribution systems and market commitment and performance

The network theory states that international expansion becomes crucial with external influences. This argument is based on macro level observations. Internationalisation often starts with low-risk, indirect exporting to 'psychically close' or similar markets (Johanson and Vahlne, 1977). Over time and through experience, firms increase their foreign market presence. They acquire general and market specific knowledge about language, culture, laws, and information sources, which would increase their commitment to 'psychically distant' markets (Johanson and Vahlne, 1990). Even if psychic distance is considered to be the distance between the home market and a foreign market (Evans et al., 2000), a paradox arises from the fact that operating in a psychically close country does not necessarily lead to a superior performance of a given firm (O'Grady, 1996). To put things in context, we would argue that a market with a high perceived institutional entry barrier is likely to be regarded as a high risk market. Put differently, if past experiences associated with entering the Japanese market are judged negatively, businesses are likely to be reluctant to engage in efforts to expand their operations and penetrate the local market.

Firms entering into an international market vary widely in terms of resource stock such as the level of knowledge in the sense of preparedness (Delios and Makino, 2003). Recent research shows that flagship stores of luxury brand retailers reinforce and enhance relationships with distribution partners (Moore et al., 2010).

Inter-firm differences in perceived institutional entry barriers may well be related to their initial stock of resources which may subsequently lead to variations in the evaluations of investment uncertainties and perceptions of the need to acquire new capabilities as well as augment and improve existing capabilities (Delios and Makino, 2003). As noted earlier, formal constraints as perceived institutional entry barriers should lead to a lower market commitment and performance. As we mentioned earlier, institutional market barriers will also negatively affect

access to distribution systems as well as the quality of the network relationship. Based on above discussion, the following three hypotheses are presented:

H1: A foreign firm's perceived degree of institutional barrier at a macro level to enter the Japanese market is negatively related to the access to distribution systems.

H2: A foreign firm's perceived degree of institutional barrier to enter the Japanese market is negatively related to the quality of interorganisational institutions with business partners.

H3: A foreign firm's perceived degree of institutional barrier at a macro level to enter the Japanese market is negatively related to its country market commitment and performance.

3.2 The effects of access to distribution systems on the quality of interorganizational institutions and market commitment and performance

Scott (1995, p.40) observes the existence of external and internal dimensions in institutions by stating that values and norms "...are both internalised and imposed by others". Inter-firm differences in behaviour can be explained in terms of an "institutional filter", which determines the extent to which specific environmental demands affect an organisation's system of norms and values and therefore are adopted (Bresser and Millonig, 2003). Macro-level heterogeneity can thus arguably be attributed to "homophilic microlevel rules" (Macy and Wilier, 2002, p.13). Dienhard (2000, p.xvi) illustrates how macro- and micro-level institutions are related:

...[M]arkets are embedded in social institutions that guide behaviour, involve organisations, that have internal structures (institutions) that guide behaviour, and involve individuals making decisions in the context of market and organisational institutions and relationships.

Moving to our specific context of the Japanese distribution system, it is worth noting that relationships and the network approach are of special interest in the Asian context. This is also reflected to a certain extent in some of the well-known dimensions of Hofstede (2001), which placed Japan third behind China and Hong Kong in long-term commitment. Business networks provide firms operating in Asia with various competitive advantages in the form of social capital (Pil and Leana, 2009). It is thus argued in the Asian context that having good and longstanding relationships is of high value (Sano, 1995).

We would argue that managers who place a high level of importance to the access to distributions systems at the macro level (ACCESS) are likely to have a better quality inter-organisational institution with direct business partners on a micro level (INTORG). In a similar manner, a high level of market accessibility (ACCESS) would most likely lead to a better commitment and performance (MACP). These considerations lead to the following two hypotheses:

H4: A foreign firm's perceived access to distribution systems is positively related to the quality of interorganisational institutions.

H₅: A foreign firm's perceived access to distribution systems is positively related to its commitment to and performance in the Japanese market.

3.3 The effects of the quality of inter-organisational institutions on market commitment and performance

Viewed from the lens of the network approach, firms operate through various types of business relationships with suppliers, competitors and other organisations. Cunningham and Calligan (1991) argue that networking combines two abilities to be a source of competitive advantage. First, it creates a net of relationship with the potential for all parties involved to benefit complementarily. Second, it harnesses the synergistic potential of the net in pursuit of the common goal (O'Farrell et al., 1998). As entering and working in networks depend on resources, it can be argued that businesses that have well-developed relationships and networks tend to place a higher level of importance on the Japanese market to enter and are likely to spearhead more efforts to market commitment and performance (Johanson and Vahlne, 1992). We therefore formulate the following hypothesis from the standpoint of foreign firms operating in Japan:

H₆: A foreign firm's quality of interorganisational institutions with direct business partners in Japan are positively related to the commitment to and performance in the Japanese market.

As a visual aid, Figure 1 schematically represents the above hypothesised relationships in the following model:

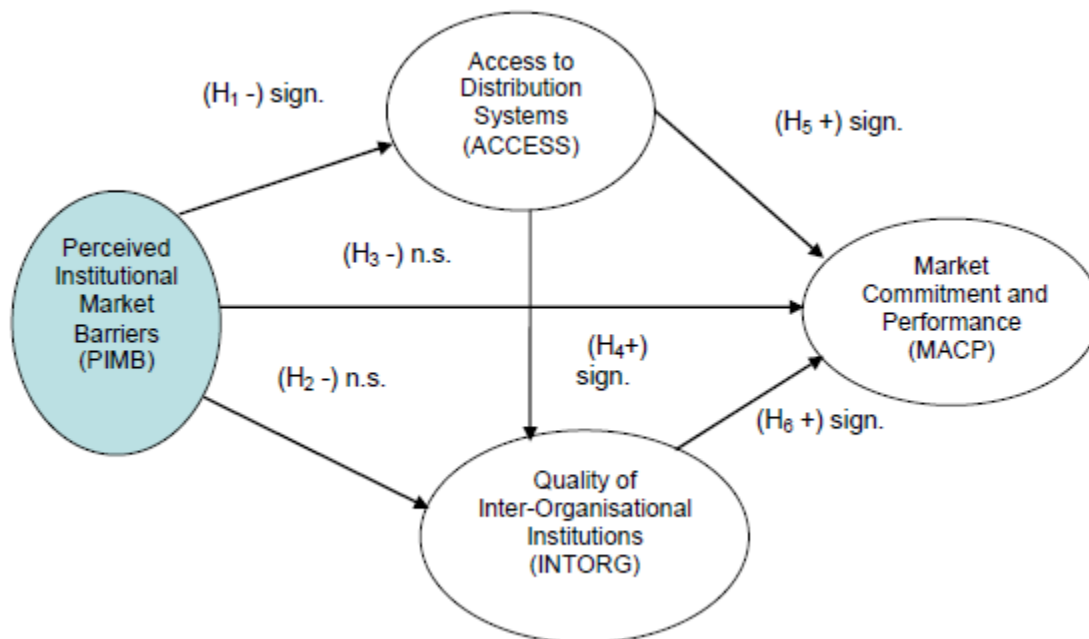


Figure 1 Model for commitment to and performance in Japan (see online version for colours)
Note: sign. = significant, n.s. = not significant.

Table 1 Profile of respondent firms

		<i>No. of firms</i>
First exports to Japan (Year)	1900–1969	8
	1970–1979	15
	1980–1989	19
	1990–1999	21
	2000–	19
Number of brands/products exported to Japan	1–2	51
	3–6	17
	8–20	7
Original entry into the Japanese market (Year)	1900–1969	7
	1970–1979	14
	1980–1989	18
	1990–1999	21
	2000–	21
Number of countries in which the company is doing business	1–10	40
	11–20	30
	21–30	18
	31–40	14
	41–50	13
	Over 50	28
Total number of employees	1–20	10
	21–50	19
	51–100	11
	101–500	68
	501–2000	30
Proportion of business in Japan related to the whole business (%)	over 2000	9
	<1	13
	<5	26
	5–10	21
	>10	6

4 Methodology

4.1 Questionnaire development and administration

A cross-sectional survey was conducted in July 2008 among German firms with various levels of presence to the Japanese market. A questionnaire was developed based on exploratory research conducted by the authors in Tokyo and in Kobe through a range of interviews in December 2007 and finally sent out with an accompanying letter to 2095 German firms, which could be

classified as consumer goods companies. These firms were taken from Hoppenstedt database, in which all relevant industries were segmented. The back translated and pre-tested questionnaire was sent out in three languages – German, English and Japanese – to give the firms possibility to let also non-German and Japanese managers respond to the questionnaire.

We received 173 questionnaires (8.26%) of which 160 turned out to be usable. However, because of missing values, we only had 24 to 45 observations in our regression analyses. For our statistical analyses, we applied factor analyses and OLS regressions to this sample of firms. Profiles of respondent firms regarding their entry into the Japanese market, commitment to this market, size, etc. are presented in Table 1.

4.2 Analyses

Multiple items were used to measure German firms' perceptions of various attributes related to the Japanese market commitment and performance. Thus we employed an exploratory factor analysis (EFA) of the items used to measure perceived institutional market barriers, access to distribution systems, quality of inter-organisational institutions and their market commitment and performance. Since the study deals with a new dataset, an EFA helped us to provide a factor structure and to detect 'misfit' variables.

A method of iteration suggested by Rai et al. (1996) was employed to derive a stable factor structure (Table 2). Items with factor loadings less than 0.5 (Churchill, 1979); or those with cross-loadings on two or more factors greater than 0.35 (Kim and Mueller, 1978) were eliminated. Scales and items retained after factor analysis are presented in the Appendix A.

Table 2 Result of factor analysis

	<i>No. of items used in the survey</i>	<i>No. of items after the final iteration</i>	<i>Cronbach's Alpha</i>
Perceived institutional market barriers (PIMB)	8	5	0.816
Difficulties when doing business in Japan	12	1	NA
Access to distribution system (ACCESS)	8	7	0.844*
Quality of inter-organisational institutions (INTORG)	13	7	0.852
Market commitment and performance (MACP)	11	8	0.870

Note: *For this factor, we further deleted three factors due to a low response rate and finally came up with a 4-item solution. This value corresponds to the four retained items.

We employed metric measures to assess German firms' perceptions of various aspects of the Japanese distribution system. Seven-point Likert scales (strongly agree =1, strongly disagree = 7) were used in measuring each construct. All results are expressed in terms of the original scores rather than z-transformed scores.

Perceived barriers of market entry were originally measured with eight items. The analysis of items resulted in a five item solution, with a reliability estimate of .816. This factor was termed 'perceived institutional market barriers (PIMB)'.

Difficulties when doing business in Japan were measured with 12 items. However, the factor analysis failed to converge on a solution with a stable factor structure. Therefore, we did not apply this factor to our analysis.

Firms' access to the Japanese distribution system was measured with eight items. It yielded a solution of seven factors with a reliability coefficient of 0.844 (Cronbach's Alpha). Because of a low response of the firms, however, we deleted three factors. The other factors were not answered to a satisfied extent and did not permit an unequivocal interpretation; its meaningfulness on conceptual and psychometric grounds was questionable. As such, these measures were deleted from all subsequent analyses (see Zeithaml et al., 1996 for a similar approach). Therefore, we came up with a 4-item solution for an intermediate institutional level, referred as "access to distribution systems" of the Japanese market (ACCESS).

The quality of inter-organisational institutions in Japan was measured with 13 items. The results from a factor analysis indicated a one factor solution of seven items (Cronbach's Alpha = 0.852). This factor was labelled as 'quality of interorganizational institutions' (INTORG).

Details of the commitment to and performance of a company's business in Japan were measured with 11 items. A factor analysis yielded an eight-item, single factor scale with a reliability coefficient of 0.875. This factor was labelled as 'market commitment and performance' to the Japanese market (MACP)'.

Overall, the scales have excellent internal consistency, which is evidenced by alphas ranging from 0.816 to 0.875. These clearly exceed the threshold of 0.7 that Nunnally (1978) suggested. In the following, we present our descriptive statistics, correlation matrix and then OLS regression results.

5 Findings

Descriptive statistics and correlation matrix of the variables used in the analyses are presented in Table 3. The key dependent variable of our regressions includes commitment to and performance in the Japanese market (MACP). The two variables explaining the market commitment and performance are access to distribution systems (ACCESS) and quality of interorganisational institutions (INTORG). Our independent variable consists of perceived institutional market entry barriers (PIMB).

Our descriptive results show that foreign firms have on average positive perceptions about institutional market barriers. For instance, legal regulations are not anymore considered as tough barriers to enter the Japanese market (Mean = 4.43, S.D. = 1.51). Furthermore, foreign firms are positive about the quality of their direct business partners (Mean=3.15, S.D. = 1.13). However, foreign firms have negative perceptions of the access of the Japanese distribution system (Mean=

4.53, S.D. = 1.19). Firm's market commitment and performance is below the neutral point of 4.0 and hence is perceived as positive (Mean= 3.33, S.D. = 1.26).

Table 3 Mean, Standard Deviation, and Correlation Matrix of the variables used in the analyses

	1. PIMB	2. ACCESS	3. INTORG	4. MACP
1. PIMB				
2. ACCESS	-.617***			
3. INTORG	-.069	.341		
4. MACP	-.058	.209	.661***	
Mean	4.43	4.53	3.15	3.33
SD	1.51	1.19	1.13	1.26

Notes: *** = significant at 1% level, ** = significant at 5% level, * = significant at 10% level.

As presented in Table 3, perceived institutional market barriers has a significant negative correlation with the access of foreign firms ($-.617, p < 0.01$). Likewise, the variable related to interorganisational institutions positively correlated to commitment and performance of foreign firms in Japan ($.661, p < 0.01$).

Table 4 Determinants of market commitment and performance, perceived accessibility and quality of inter-organisational institutions in Japan

IV	Model I: DV: ACCESS	Model I: DV: INTORG	Model III: DV: MACP	Model IV: DV: ACCESS	Model V: DV: MACP	Model VI: DV: MACP
Intercept	23.454 (9.239)***	2.954 (2.748)***	3.775 (5.726)***	12.483 (5.382)***	2.525 (3.710)***	0.995 (2.748)***
PIMB	-1.729** (2.858)	-0.040 (0.712)	-0.055 (0.7)			
ACCESS					0.081 (2.203)**	
INTORG				1.551 (2.320)**		0.882 (8.212)***
N	24	31	36	38	45	51
R ²	.271	0.005	.004	0.130	0.101	0.579
Adj-R ²	0.238	-0.030	-.025	0.106	0.081	0.571
F	8.165***	0.139	.151	5.384**	4.854**	67.444***
Hypothesis tested	H ₁ : supported	H ₂ : not supported.	H ₃ : not supported.	H ₄ : supported	H ₅ : supported	H ₆ : supported.

Notes: *** = significant at 1% level, ** = significant at 5% level, * = significant at 10% level.

In Table 4, we first consider the OLS regression results with access to distribution systems (ACCESS) as the dependent variable and perceived institutional entry barriers (PIMB) as the independent variable (Model I). There is a significant and negative relationship as predicted in

our Hypothesis 1. We thus found support for our hypothesis that lower perceived entry barriers are likely to lead to higher access to distribution systems.

Our second variable as quality of inter-organisational institutions (INTORG) is not statistically significant to perceived institutional market barriers (PIMB) as suggested in our Hypotheses 2; that is, we failed to reach a level of significance above chance (Model II). Heavy institutional barriers (PIMB) do not show a significant negative effect on quality of interorganisational institutions (INTORG).

Next, we discuss our OLS regression results for our dependent market commitment and performance (MACP) in Table 4 (Model III). The direction of the effects of market entry barriers is negative as predicted by Hypothesis 3 but not significant. That means, our data failed to provide evidence that higher market barriers lead to a lower commitment to and performance in the Japanese market for foreign firms.

We then tested the effect of the variable access to distribution systems (ACCESS) on the quality of interorganisational institutions (INTORG) and found support for Hypothesis 4. This means that firms with a favourable perception of the access to distribution systems tend to have a better quality of interorganisational institutions (Model IV).

Now, we take access to distribution systems (ACCESS) and quality of interorganizational institutions (INTORG) as independent variables and test the effect on market commitment and performance (MACP). The findings in Table 4 (Model V) also support our hypothesis that the perceived access to distribution systems has a statistically significant positive effect on market commitment and performance (MACP). Likewise, the result in Table 4 (Model VI) is supportive of our hypothesis regarding the effect of the quality of interorganisational institutions (INTORG) on market commitment and performance (MACP).

6 Discussion and implications

6.1 Discussion

A review of the distribution literature as well as anecdotal evidence indicates changes in conditions related to foreign companies' market access in Japan. For this, we test the direct relationship between German firms' perceived institutional market barriers and their market commitment and performance. We refer to this first construct as formal institutions. Our tests also involve two variables related to informal institutions: German firms' perceived access to distribution systems and the quality of interorganizational institutions.

Applying considerations mainly from institutional theory and the network approach, some new light is shed on recent developments. Despite governmental supports to attract foreign firm investments to Japan, foreign firms still consider the Japanese market as far from accessible. Our direct test concerning the effect of German firms' perception of institutional market barriers on their market commitment to and performance (MACP) in Japan did not show statistically significant results.

The findings of this research thus support the view that legal changes alone do not automatically lead to a better market commitment and performance. We then tested the effects of the two informal constructs: access to distribution systems (ACCESS) and quality of inter-organisational institutions (INTORG) on MACP. We can see that there are significant positive effects of both of these variables on MACP. Thus, our findings indicate that firms with a better access to distribution systems and a better quality of inter-organisational institutions are likely to show a higher market commitment to and performance in Japan.

One way to encourage foreign firms' investments in Japan would be to help them deal with the informal institutions, for instance, by offering smoother ways for them to improve their relationships with Japanese firms and access to the market. In light of the stereotypically expectations that surround the Japanese distribution system, it is worth noting that firms have good relationships with their Japanese business partners and report positively about their cooperation partners. In this sense it is no surprise to us that a higher level of access to distribution systems and a high quality of inter-organisational institutions leads to a stronger market commitment and performance. Also, access to distribution systems seems to positively influence the quality of inter-organisational institutions.

Our findings have important implications for public policy. The above analysis indicates the importance of informal rather than formal institutions for increasing commitment and performance of foreign firms operating in Japan. In this regard, a December 2004 survey conducted among Japanese citizens by Nomura Research Institute deserves mention. Over 30% of respondents said that foreign companies' image had improved compared to a decade before whereas less than 9% thought that it had worsened (Suginohara, 2008). To encourage further foreign investments in Japan, the Japanese government may need to go beyond changing just legal regulations. As macrolevel political issues do not seem to influence German firms' market commitment and performance, measures need to be taken to help them have an improved access to the distribution system or deal with Japanese firms in order to facilitate their operations in the country. There is also evidence in our sample that the quality of network of foreign firms in Japan influences market commitment and performance. It thus seems that firms having a solid network are likely to have a higher level of market commitment to and performance in Japan.

6.2 Limitations and future research

A first limitation of our research concerns the limited geographical basis of respondent firms as this study relates only to German firms operating in Japan. Also, due to unit nonresponse and item non-response, we were left with a small sample size and, thus, limited statistical power to compare firms' perception of the Japanese distribution system and the effects of various explanatory variables. A third limitation concerns the fact that only cross-sectional data were collected. For investigating changes of perceptions over time longitudinal data would be more appropriate. A fourth limitation of the paper is that our findings are based on the accounts of events as perceived by a single organizational member, which has a potential to lead to a single-source bias. Finally, the gap between perception and reality may be due to various reasons such as lack of interest and information, strong prejudice and country image, non-representative opinions of people and media, and selective information processing. Besides cultural distance was sorted out as we just investigated German firms, psychic distance of managers can be

defined in broader terms. This is an individual-level phenomenon and attitudes towards a given market may thus differ from person to person (Sousa and Bradley, 2006). As we lacked necessary data, we were not able to emphasise the issue of psychic distance.

The perspective developed here suggests many exciting directions for future research. Specifically, this study gives some insights into changes of a country's distribution system. The focus of this paper was on the consumer goods industry and Japan-based German firms. The distribution problems facing foreign firms in the B2B sector is likely to be different from those in the B2C sector.

Future research based on this paper's framework can be extended to firms from other geographic areas (e.g. North America, Asia, etc.) operating in Japan. Firms from other geographic regions may have different expectations as to the Japanese distribution system and hence may assess the recent changes differently. Another interesting avenue for future research is to examine how national regulatory framework related to distribution systems triggers changes in informal institutions related to such systems. One such example concerns the changes in the Chinese distribution system following China's entry into the World Trade Organisation (WTO).

Finally, future researchers could study how interrelationships among the above constructs vary across industries and business sectors in Japan. Analysts, for instance, have noted that deregulation in Japan has taken place more rapidly in areas such as consumer goods compared to industrial goods leading to more explosive growth of the former compared to the latter (Japan Economic Studies, 2007). A comparison of foreign firms in consumer goods and industrial goods sectors in terms of perceived institutional entry barriers, level of market commitment and performance, access to distribution systems and quality of interorganisational institutions with business partners thus might be worthwhile target of study.

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Appendix A Scales and items retained after factor analysis

Perceived institutional market barriers to enter Japan (PIMB) (Cronbach's Alpha = 0.816)

The following statements apply to our company's original entry into the Japanese market ___ (year):

- Legal regulations were difficult barriers.
- Taxes were too high.
- The assistance of governmental institutions was unsatisfactory/bureaucratic barriers were high.
- The Japanese distribution system was extremely complex (intransparent/too many levels/too costly etc.).
- Language and cultural differences caused problems.

Access to distribution systems in the Japanese market (ACCESS) (Cronbach's Alpha = 0.844)

In our opinion the following statements apply as follows:

- The distribution system in Japan is becoming less complex.
- For foreign companies it has become easier to sell products in Japan.
- The dealing with Japanese trading companies has become more convenient.
- It is more convenient getting access to the Japanese distribution system.

Quality of interorganisational institutions with direct business partners in Japan (INTORG) (Cronbach's Alpha = 0.852)

In our opinion the following statements apply:

- All of our direct Japanese business partners actively promote our products.
- Some of our direct Japanese business partners have made special expenses for our business.
- Our direct Japanese business partners are satisfied with the economic results of our cooperation.
- The business views of our direct business partners correspond to our strategic plans.
- The experiences of our direct business partners in Japan are a valuable support for accomplishing our aims.
- Our products are essential for the market success of our direct business partners.
- We are satisfied with our business results due to the cooperation of most of our Japanese business partners.

Market commitment and performance in Japan (MACP) (Cronbach's Alpha = 0.870)

The following statements apply to our company:

- The business we are doing in Japan is of outstanding importance within our international business activities.
- Generally, our Japanese retail partners engage themselves in selling of our products.

- Japanese retail partners understand our corporate and sales philosophy.
- The Japanese consumer is very different from the European consumer
- Our sales and profit aims have been achieved or will be achieved in the near future
- It was a good decision doing business in Japan.
- Long-term relationships can be built easily with our direct and indirect customers.
- Our products in Japan are of high brand equity.