

## SUSTAINABLE BUSINESS MANAGEMENT IN DIGITAL SOUTHEAST ASIA: JAPANESE FIRMS IN LAO PDR

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### Abstract

*Since World War II, East Asia, including Japan, South Korea, and China, has achieved significant economic development, while many Southeast Asian economies still require further sustainable growth. Business promotion is crucial for economic development in capitalist societies, with Southeast Asia focusing on innovation and digitalization, offering unprecedented opportunities for global operations. Over recent decades, Japanese enterprises have increased foreign direct investment in Southeast Asia, fostering local market expansion and sustainable growth. This study explores the cultural and business communicative barriers hindering Japanese firms from achieving high performance and how to overcome barriers to success. This study is based on semi-structured interviews with Japanese managers leading organizations in Lao PDR. In their own words, these managers identify challenges and how they are able, or unable, to overcome them regarding staff, training, communicating, Digital Transformation, and conducting regular business. Drawing from these comments and experiences, we seek to describe best practices and strategies, prescribe some approaches that may be usable for other managers, and map the areas still requiring investigation. Effective overseas operations require network resources locally and cultural sensitivity for success in East Asia's dynamic business environment. Lao PDR, despite steady progress, faces significant challenges, including lack of resources, inequality, and inadequate infrastructure. The government is focused on sustainable development and improving digitalization, yet funding and training remain hard to resolve.*

**Key words:** Sustainable Business Management, Communication, Cultural Differences, Digital Transformation, Japanese Firms, Southeast Asia, Lao PDR.

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## 1. Introduction

Since World War II, East Asia has seen significant economic growth, with Japan, South Korea, and China leading the way through industrialization, high-tech focus, and market reforms. In contrast, many Southeast Asian economies, though advancing, still face challenges, with Laos being one of the regions least developed. Business promotion via innovation and digitalization is crucial for growth, and Japanese companies are increasingly investing in Southeast Asia for growth as well as to drive efficiency in their businesses. Despite these efforts, Japanese firms face significant cultural and communication barriers in Laos. This study uses semi-structured interviews with Japanese managers to identify these challenges and strategies intended for improving performance in this underdeveloped country.

## 2. Literature Review

### 2.1. Economic Situation and Cross-Cultural Management in Southeast Asia

Since the 1960s, ASEAN economies have shifted from primary industries to secondary and tertiary sectors, following the industrialization models of South Korea and Taiwan (Perkins, 2013). This transition has spurred multinational investment, driven by improved business conditions and increased FDI (UNCTAD, 2024; World Bank, 2020).

However, successful operations in Southeast Asia also require cultural understanding. Key traits like respect for hierarchy, indirect communication, and relationship-building influence business interactions, from negotiations (Salacuse, 1998) to decision-making (Witt & Redding, 2008). Practices such as face-saving and adaptability are vital for cross-cultural management (Hipsher, 2010) and overcoming language barriers and fostering cultural awareness are key challenges. As globalization expands, managing cultural diversity becomes crucial for multinational enterprises (Taira & Schlunze, 2022), especially for Japanese firms adapting to local norms (Schlunze et al., 2014).

Lao PDR faces economic challenges, including currency depreciation and high inflation, with food prices up 39.5% in 2023 (ADB, 2024a). Despite these issues, growth is projected at 4.0% for 2024 and 2025, though inflation will remain high (ADB, 2024b) and challenges like weak government capacity and project delays persist (ADB, 2024a). As of June 2024, approximately 110 Japanese firms operate in Lao PDR, with 581 Japanese residents (JETRO, 2024). This is low compared to other Southeast Asian countries. To boost economic growth, Lao PDR needs to enhance its attractiveness to foreign investment, including from Japanese firms.

### 2.2. Economic Development and Digitalization in Southeast Asia

East Asia, including Japan, South Korea, Taiwan, and China, has seen significant economic growth (Perkins, 2013). In contrast, while Southeast Asia has grown over the past 30 years, many of the region's economies still need development (ADB, 2011; UNCTAD, 2024; World Bank, 2024a). The region shows a

stark GNI per capita disparity: Malaysia and Thailand have figures between 7,000 and 11,000 USD, while countries like Indonesia, Myanmar, Cambodia, Laos, Vietnam, and the Philippines report figures below 4,000 USD (World Bank, 2024a).

Gill and Kharas (2007) discuss the "middle-income trap," highlighting the challenges of transitioning to higher income levels. In Southeast Asia, economic growth is increasingly driven by digitalization, which creates opportunities (Khare et al., 2022). From 2015 to 2019, nominal GDP growth averaged 6.1%, while the Internet economy expanded by 33.0% (METI, 2020). The COVID-19 pandemic accelerated this trend, with projected annual growth of 28.2% for the Internet economy from 2019 to 2025, significantly outpacing GDP growth (Yusof Ishak Institute, 2020). This underscores the transformative potential of digitalization.

### **2.3. Digital Transformation (DT)**

The concept of Digital Transformation (DT) refers to radical change in an organization's processes, culture, and thinking (Hinings et al., 2018). Firms that start with few or no digital systems can undergo DT as can firms that are born digital; DT is expected to be continuous (Kääriäinen et al., 2020). Since there are no solutions that fit all situations, firms must feel their way forward as they proceed.

### **2.4. Cross-Cultural Management**

The academic study of cross-cultural management addresses concerns such as cultural knowledge transfer, inclusivity, and sustainable human resource management. These activities aim to achieve synergy (Adler & Gundersen, 2005), which fosters a firm's success rather than mere survival. A key component is knowledge transfer, typically flowing from the parent company to the subsidiary (Rhodes et al., 2008), with infrequent transfer in the opposite direction (Murakami, 2017). The transferred knowledge often involves management practices and schemas (Andreil et al., 2021). Beyond management practices, Cultural Intelligence (CQ) is crucial in cross-cultural settings (Earley & Ang, 2003).

## **3. Study Gap, Study Purpose, and Research Question**

### **3.1. Study Gap and Purpose**

Previous research on sustainable business management has often overlooked the cultural and communication barriers faced by Japanese firms in least-developed countries (LDCs). Lao P.D.R., an LDC in Southeast Asia with limited East Asian investment, serves as a key example. This study addresses this gap by exploring how Japanese firms can navigate these barriers to enhance their performance in such challenging environments. Specifically, it investigates the cultural and communication obstacles that hinder the performance and sustainable management of Japanese firms in LDCs, focusing on Lao P.D.R.'s underdeveloped economy. Using semi-structured interviews and questionnaires, this study provides an in-depth analysis of these challenges.

### 3.2. Research Question

*How do cultural and business communication barriers impact the performance of Japanese firms in sustainable business management in Lao PDR?*

## 4. Frameworks

Tran and Karikomi (2019) categorized ASEAN countries into "lower-middle-income" and "higher-middle-income" to examine growth challenges in inclusive development. Hara (2023) builds on Tran (2016) and Ács and Szerb (2009) by classifying economies as "Factor-driven," "Efficiency-driven," and "Innovation-driven," clarifying the link between economic development and entrepreneurial growth and its effect on GNI in the Middle-Income Trap in Southeast Asia. The World Bank (2024b) emphasized that transitioning to high-income status requires moving from "investment" to "innovation," highlighting the need for economic restructuring and social mobility. In Southeast Asia, cultural factors like hierarchy, indirect communication, and relationship-building shape business practices, with elements like face-saving, flexibility, and time orientation being key as a way of human resource management in local areas (Hipsher, 2010; Andrei and Laura, 2021). Considering these factors, a conceptual framework addressing cultural and communication barriers impacting Japanese firms in sustainable business management, particularly in less-developed countries, can be structured as illustrated in Figure 1.

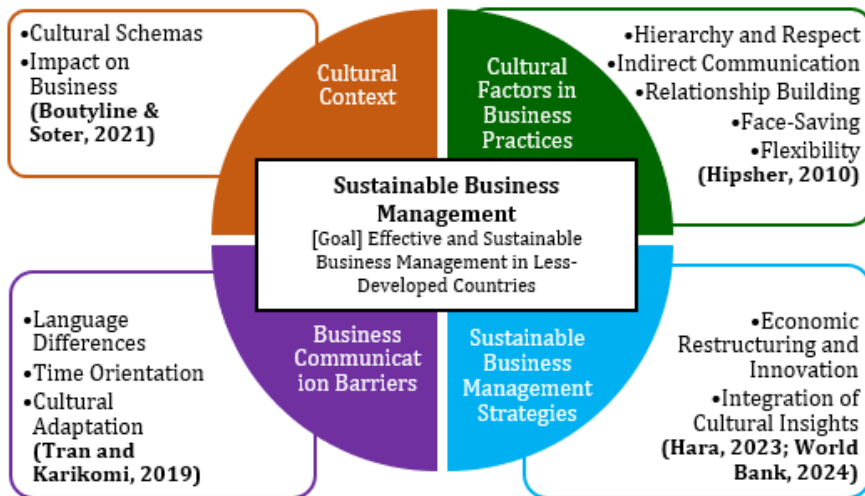


Figure1: A Hypothetical Framework on Sustainable Cross-cultural Business Management  
Source: Authors

It illustrates a hypothetical framework for sustainable business management in the context of promoting economic development in LDCs. The four key factors presented— "Cultural context," "Cultural Factors in Business Practices," "Business

Communication on Barriers,” and “Sustainable Business Management Strategies”—serve as major catalysts for achieving the goal of “Effective and Sustainable Business Management in Less-Developed Countries,” which is central to the figure. These factors influence local business operations by potentially causing misalignments that lead to misunderstandings, deviations from local cultural expectations, communication barriers and inefficiencies, and by driving innovation while respecting the local context. This figure visually represents the various factors influencing the performance of Japanese firms in sustainable business management, highlighting the importance of cultural understanding and effective communication strategies.

## 5.Methodology

This study examines the impact of cultural and business communication barriers on the performance of Japanese firms in sustainable business management in least-developed countries, such as Lao PDR. Using a qualitative approach, semi-structured interviews were conducted with CEOs or representatives of Japanese firms operating in the region. The three firms investigated, and the time spent with them are shown in Table 1.

Participants were purposively sampled based on technology-related leadership roles (Creswell & Poth, 2017), with snowball sampling used to reach hard-to-access e-leaders through referrals. Due to geographical constraints, interviews were conducted online, recorded, transcribed, and analyzed. The interview questions were guided by a detailed research framework.

*Table 1. Case firms and data collection*

Firm	Time	Job Title	Interview	Questionnaire	Sector
A	75min	President	Y	Y	Construction
B	85min	President	Y	Y	Education
C	60min	Project Manager	Y	Y	Government

*Source: Authors*

Thematic analysis was employed to examine the data, identifying patterns and themes within interview transcripts and open-ended responses (Braun & Clarke, 2006). This method, adaptable to various theoretical frameworks (Braun & Clarke, 2019; Guest et al., 2012), involved deductive, inductive, and hybrid approaches for coding, theme identification, and refinement. We utilized two approaches—web-based questionnaires and parallel online interviews—to ensure complete and understandable responses to the questionnaire and survey items (Creswell, 2013; Patton, 2015).

The themes revealed by the interviews and questionnaires are shown in Table 2 as follows.

Table 2. Themes raised by interviewees

Main themes	Sub-themes
Alignment with HQ	Communication (Firm A, B, C);
Digital Transformation (DT)	Training (Firm A, B); Funding (Firm B, C); Low ability of staff (Firm A, B, C)
Business culture and practice (Cultural Schemas)	How things are done (Firm A, B, C); Cultural accommodation (Firm C); Teaching (Firm B, C); Integration of cultures (Firm A, B); Cultural adaptation (Firm B)

Source: Authors

## 6. Study Findings

We surveyed three Japanese firms in Lao PDR through web-based questionnaires and online interviews in June and July 2024, focusing on DT, cultural adaptation, and economic contributions.

- Firm A (Construction) saw moderate digital impacts, with improved efficiency and fraud reduction. It positively handled financial pressures, hired a new manager, and emphasized quality control through training. Its sustainability efforts centered on profitability.
- Firm B (Education) experienced broad digital effects, enhancing product and customer management. It restructured teams, focused on cultural understanding, and struggled with sustainability. Revenue from new technologies was most successful here.
- Firm C (Government) saw limited digital impacts due to resource constraints, faced financial struggles, and made no organizational changes. It focused on staff motivation and human resource development, integrating sustainability into operations.

All firms recognized the importance of cultural understanding. Economic contributions included sales expansion (Firm A), Japanese-style education (Firm B), and human resource development (Firm C). Challenges varied, from regulatory adaptation to network strengthening, impacting their sustainable business management as explored in section 4.

## 7. Discussion and Conclusion

All firms faced challenges but found ways to address them, primarily by introducing Japanese management practices to Laos, with limited incorporation of Laotian practices. This suggests firms should more carefully consider which practices and schemas to adopt. Firm B was notably successful due to its local focus, but further research is needed to understand how firms identify and integrate local practices. All firms positively impacted local sustainability, with Firm C aligning

headquarters' goals and local stakeholders by focusing on human resource development and communication.

The framework in Figure 1 is potentially valid for addressing barriers in small markets like Lao PDR. However, the study's limitations include a small sample size, reliance on self-reported data, lack of longitudinal data, and limited exploration of external factors. Interview bias and simplified cultural interpretations may also impact the findings.

Despite its limitations, the study offers valuable insights into the cultural and communication barriers that impede Japanese firms in Lao PDR and proposes a framework for sustainable business management based on semi-structured interviews with Japanese managers.

To succeed in Lao PDR, Japanese enterprises should focus on: tailored DT, proactive financial management, and deep cultural adaptation. Investing in cultural sensitivity training, localizing operations, and fostering inclusivity will enhance relationships with local stakeholders. Balancing autonomy with effective communication between local operations and headquarters is key for strategic alignment. Contributing to local economic development and integrating sustainability practices will help build long-term market presence. Continuous strategy evaluation and adaptation are crucial for navigating the unique challenges of the Lao market.

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