**Comparing Internationalization Patterns and the Evolution of the Japanese Multinational**

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The rise of Japanese MNCs (JMNCs) marked, from the 1980s onwards, an historic change in the structure and in the dynamics of the international economy. For the first time, businesses from a non-Western nation established a competitive global presence, and they did so by bringing their advanced products and management systems to the developed economies of Europe and North America (Fitzgerald, 2015). In the last thirty years, moreover, our interpretations of JMNCs had undergone a series of revisions. Korean firms followed in the 1990s and the Chinese likewise in the 2000s. A seeming decline in competitiveness and developments in the structure of the international economy challenged a business model on centralization around parental company direction, control and capabilities. Both trends asked questions about how Japanese subsidiaries should operate in global production chains increasingly reliant on contracting out and off-shoring, and how JMNCs might engage more in strategic cooperation and empower subsidiary decision-making. The high preponderance of Asia Pacific firms in the lists of leading emerging economy MNCs, at first sight, hinted at region-wide factors or similarities in patterns of internationalization. The contributors to this volume, as a result, consider a wide range of relevant issues: they demonstrate the long-term evolution of JMNCs; they compare the experience of JMNCs with firms from the other two major Asia Pacific economies, Korea and China; they evaluate the applicability of established FDI to MNCs from Japan and the Asia Pacific; and they reflect on the internal organization of JMNCs at the global, national and sub-national level.

**The International Economy and MNC Strategy**

During the 1980s, and more spectacularly from the 1990s, foreign direct investment and trade accelerated rapidly, and ever-larger businesses enhanced their control over the cross-border movement of commodities and manufactures. While the shortest survey of international business would soon dismiss the idea that ‘globalization’ was historically unprecedented, have there been trends amongst MNCs, their strategies and organization that have particularly distinguished the period since the end of the 20th century? There were greater examples of MNCs acting more regionally and even globally in their commercial interests, in the sense of becoming less dependent on the revenues of their home nation market. FDI began to move towards the fast growing emerging economies, away from the very richest nations that had so markedly attracted inward investment during the post-war decades. Developing and Transition Economies (DTEs) were hosts to some half of inward FDI flows by 2009, although the bulk gravitated to the most successful countries amongst them. The developed world’s share of inward FDI, therefore, stock fell from about 75 to 65 per cent between 1990 and 2010. The lowering of government restrictions encouraged FDI and, especially, rapid increases in international mergers and acquisitions. Investors looked to the many opportunities provided by privatizations, in the West, but in the Soviet Union and its East European satellites too, when these former Communist nations had for so long been closed to the international economy. China, likewise, opened its borders, and became for a period the primary magnet for inward FDI. In other words, both the geographical dimensions and the economic scale of the international economy changed. Of great historical significance was the transformation of businesses from emerging economies into the global lists of notable MNCs. International services grew markedly in relation to manufacturing, in a reversal of post-war trends. Multinational subsidiaries became more operationally integrated, and global value chains and vertically divided cross-border production systems evolved in significance and complexity (Fitzgerald, 2015).

By 1980, the value of FDI stock remained smaller in proportion to the world GDP than before the First World War. During 1984-87, global out-flows of FDI tripled, and grew by a further 20 per cent in both the years that followed. Five major investing countries – Japan, the US, Britain, Germany, and France – maintained their 70 per cent share of FDI outflows, and the contribution of developed economies as a group increased to over 81 per cent. Japan, by the end of the 1980s, was the much noticed new entrant, thanks to an appreciating Yen and protectionism in the US and the European Union compelling its major manufacturers to adapt their highly successful export strategies. The expansion of FDI flows continued during 1992 to 2008, multiplying eight-fold overall. Following three years of particularly robust performance, FDI flows peaked at a phenomenal 40 per cent increase for the year 2000, and remained high during the decade that followed. Because of the new scale and advantages of FDI, from 1982 onwards, sales of foreign-owned MNC affiliates grew faster than world exports, and they were throughout the 2000s twice the dollar totals. By 2007, there were an estimated 79000 MNEs, operating some 790000 overseas subsidiaries, and employing 82m people. Outward FDI stock in 1993, as a ratio of world output, finally overtook the level of 11.1 and reached 11.3. The surge in FDI during the 1990s propelled the world GDP ratio of FDI stock by 2000 to 18.7, and the even more dramatic developments of the 2000s would create by 2009 a figure of 34.5 (Fitzgerald, 2015).

Multinational affiliates – excluding therefore the major contribution of parent companies in their home economies – were responsible for a third of world exports by the 1990s. MNCs – parent and subsidiary alike – had by 2000 some two-thirds of merchandise and service exports, much of it in intra-trade. This intra-firm trade – cross-border activities organized by MNE management between directly-owned plants and offices – expanded in importance, from 20 per cent of international commerce to about 40 per cent by 2000. The upward trend in the sales, value added and exports of the foreign affiliates owned by multinationals indicates how multinationals became more internationalized and less predominantly home country enterprises with added foreign subsidiaries. Such impressive measures do not, moreover, include the complex international networks of contracted suppliers and associated businesses increasingly coordinated and determined by MNCs, and requiring new strategies and forms of organization. The manufacturing MNCs that had been at the forefront of FDI in the post-war decades had revealed a preference for wholly-owned subsidiaries and frequently greenfield investments, and they had demonstrated concern for direct control of their management and therefore the firm’s proprietary knowledge. For the post-1980 period, across all sectors, strategies showed a greater inclination towards joint venture and strategic alliances. They reflected, depending on industries or location, the intention to share the costs of R&D, production or marketing; to exploit locational efficiencies and off-shoring in cross-border vertical production chains; or to meet the investment requirements of emerging economy governments, or to obviate the commercial or political risks of investment. Another crucial trend in the entry-mode strategies of MNCs was the pursuit of international M&A. The lowering of investment barriers, plus a worldwide spate of privatizations, supplied the compelling mix of opportunity and incentive. M&A allowed MNCs to respond to intensifying international competition by enabling rapid and global expansion; it accelerated the international consolidation and restructuring of industries, as well as the capture of technology, cost or infrastructure advantages available in overseas locations. Contrary to strategies of market-seeking through nationally orientated subsidiaries, utilizing capabilities transferred from the parent company, it empowered patterns of asset-seeking and the purchase of capabilities in R&D, production, or marketing. The decline of manufacturing, as a share of all outward FDI assets, was characteristic of the period: the figure of 44 per cent in 1990 fell to some 26 per cent by 2005. Amongst manufacturing FDI, chemicals and chemical products maintained its role as the lead sector, but electricals and electronics fell back to fifth place, directly supplanted at number two by motor vehicles and transportation. The food, beverages and tobacco, and the metals and metal products sectors maintained their prominent position, as did, further down the rankings, machinery and equipment, and textiles, clothing and leather. As with services and natural resources, there was some shift in the location of manufacturing assets: the percentage found in developing economies increased from nearly 20 to over 24, between 1990 and 2005 (Fitzgerald, 2015).

The 1980s was the decade of the JMNCs, when their surging investments in the US and the European Community sought to defend overseas sales threatened by rising tariffs and stricter import quotas. Japan’s outward FDI levels had formerly been low – mainly to secure raw materials or key components – and it took less favourable trade policies in major export markets to provoke a change in international business strategy and their conversion of leading Japanese companies into global multinationals. By 1988, Japan had overtaken the European Community and the US as the largest contributor of outward FDI flows. Businesses such as Toyota, Sony, and Panasonic transferred the management and production techniques, which had made them successful exporters, to their new foreign affiliates overseas. In order to enhance market access and to gain experience of the US, Toyota did for a period found a joint enterprise with General Motors, and similar decisions can be found amongst Japanese firms. Yet the majority or full control of foreign-based subsidiaries became associated with the safeguarding of product and managerial knowledge and the effective transfer of capabilities from the parent company. Largely determined by newly-imposed tariffs and import quotas, the strategies of JMNCs differed in important respects from the motivation of the US and European MNCs that had dominated international business. On the other hand, JMNCs were continuing the pattern of transferring ownership advantages to owned or controlled subsidiaries, as established by US MNCs in the post-war period. The United Nations Conference on Trade and Development (UNCTAD) acknowledged how Japanese MNCs through their rapid ‘multinational-ization’ encouraged the development of regional and global production networks. ‘Fit within the global value chain’ was a major strategic consideration, and transnational coordination, alongside internal firm-based capabilities such as R&D or production management, formed an increasingly important source of competitive advantage. Some 77 per cent of the sales to Japan made by Japanese-owned plants in Asia were components for a parent company, in 1987, while the figure for sales to Japanese-owned plants in the US and the European Community were over 50 per cent (Fitzgerald, 2015; Fitzgerald and Rowley, 2015; Farrell, 2008).

As has been well attested, MNCs looked increasingly from the 1990s onwards to externalize, contract out or off-shore production, while exerting authority through the setting of technical, quality or delivery standards. They could focus on those parts of the global value chain that secured competitive advantage, value-added or control, most likely involving R&D, product definition, marketing, or branding. JMNCs had established subsidiaries in developed markets in fulfilment of a different approach, and had done so with centralized management structures associated with a strong belief in ingrained practices. It was argued that JMNCs were slow to meet changing trends in the nature of international business. They faced growing competition from other producers, often from East Asia, which could exploit efficiency-seeking FDI in low cost locations, and employ asset-seeking strategies that could leap-frog their lack of ownership advantages. Japan’s era of low growth became associated with the perceived fall in the competitiveness of JMNCs, and, indeed, leading sectors and companies had to address issues of restructuring and re-location. As well as needing the faster growth to be found in overseas markets, JMNCs had to consider their management practices, and to foster strategic partners and collaborative arrangements covering R&D, production or marketing, or cooperation in host markets. They required subsidiaries that could better customize products and services, employ indigenous decision-makers, and or cooperate with local producers and investors. Compared to their major competitors, Japanese firms continued to internalize a greater number of production stages as well as core functions such as R&D (Fitzgerald, 2015; Fitzgerald and Rowley, 2015; Farrell, 2008). The contributors to this volume, accordingly, address a number of important questions about the patterns of internationalization followed by JMNCs. What changes in strategy, organization or core capabilities did JMNCs need to make since the late 1990s, and how successfully have they achieved transformation? To what extent has the internationalization of companies from other Asia Pacific nations differed from their Japanese predecessors, and does the record of JMNCs offer any important lessons for competitors? Has, lastly, the control and direction of overseas subsidiaries evolved to meet contemporary demands of managerial localization, global production chains or organizational learning?

**Comparisons and Patterns of Internationalization**

Fitzgerald and Rui begin by considering the rapid rise of Chinese MNCs in the global economy, and ask to what extent their characteristics are unique or reflective of Asia Pacific enterprise more generally. They ask to what extent their expansion has mirrored the internationalization of Japanese enterprises, and, it follows, to what extent their earlier transformation can provide lessons for Chinese and other developing economies. Through a comparative literature review, they identify fundamental factors that influenced the decision-making, growth patterns and competitiveness of Japanese and Chinese MNCs: they review three firm-specific considerations of strategy, core capabilities, and organizational structures, and, in addition, the context of business-state relations. Fitzgerald and Rui apply an historical approach by comparing the evolution of international business since the 1980s, and by analyzing the changing dynamics and needs of strategy, capabilities, organization and government policy. They point out that there are few studies that directly compare FDI from Asian nations, and stress the importance of extending the analysis through case studies. The existing literature, looking separately at Japanese firms (JMNCs) and Chinese firms (CMNCs), seems to indicate that they share important features, such as state-sponsored support and a centralized corporate structure. There exists praise for JMNCs in having demonstrated strategic intent, core competence, and unique management systems, but there is a shortage of studies and a range of assumptions about JMNC decline during Japan’s low growth era. Others argue, in turn, that CMNCs are lacking in their core competencies and management systems. Fitzgerald and Rui employ a comparative case analysis to reveal that the realities are more nuanced or ill-defined than suggested by available studies, and present a wide ranging survey of firms based on original evidence and interviews within a framework that identifies key influences.

On motivation and strategy, and as is well known, the raising of tariffs and import quotas determined the switch of Japanese firms from exporting to Europe and the US towards FDI. In doing so, Japanese manufacturers revealed strategic intent or purpose in internationalizing rapidly and in developing subsidiaries at scale. These JMNCs leveraged their leadership in core capabilities such as technology, production and management through their transfer to host economies, frequently and preferably within wholly owned or controlled subsidiaries, and they revealed a capacity for long-term planning and organizational adaptation. By contrast, CMNCs were more short-termist in their internationalization goals. Despite the financial and administrative support of government, and close influential relationships, the management of JMNCs could decide on their strategic objectives, based on export success, firm-level capabilities, and availability of capital; for CMNCs, at least in the case of SOEs, government policies swayed the decision to internationalize and choice of host markets. Many CMNCs did not possess globally superior technology and management practice, and only a small number followed long-term strategic goals; as a result, internationalization served as a means of acquiring strategic capabilities, leveraging home advantages in low cost products and services, or targeting emerging economies where they could utilize a comparative advantage or their intuitive understanding of developing markets. From the late 1990s, as Japan’s competitiveness waned, many JMNCs appeared less certain about how to operationalize strategic intent in a global scenario of decentralized cross-border management, joint ventures, alliances, inter-firm organizational learning, and cross-border capability acquisition. In terms of core capabilities, JMNCs in the electronics sector encountered strong challenges from low cost producers, and struggled to retain leadership in products, brands and technology. In other sectors, such as automobiles, strong internal capabilities and management often fitted uneasily with the deepening of collaborative relationships and organizational learning processes in host economies, and top-down decision-making and centralization acted as brakes on the empowerment of subsidiary management. Lengthy planning horizons and parent firm control, previously advantageous, potentially inhibited organizational renewal and product innovation in established JMNCs. CMNC competitiveness continues to rest on imitation capability, cost advantage, and a responsive supply chain, rather than on superior technology and best management practice. Frequently going abroad opportunistically, they remained organizational learners when transforming into MNCs, but, as noted, they had ownership advantages relevant to emerging economies. While proving their capacity for quick decision-making and local adaptation in foreign markets, there are only a few notable exceptions among CMNCs to the general lack of competitive capabilities, management and structures that might serve as a foundation for developing leading business systems and technologies in the next stage of their internationalization.

In terms of internal management, both JMNCs and CMNCs share a preference for centralized corporate structures, and localization rates have been relatively low compared with Western MNCs. The benefits for JMNCs, during the early period of Japanese competitive leadership, had lain in transferring home-grown capabilities to newly-founded and highly controlled subsidiaries. Yet such practices embedded an approach not necessarily appropriate to a desired subsequent phase of internationalization. JMNCs became associated for a period with the use of expatriate managers, as a mechanism for facilitating capability transferring and control. CMNCs rely more heavily on expatriates than the Japanese historically speaking, and, in addition, firms in oil, mining and construction in developing economies transferred large numbers of labour. Centralization has enabled CMNCs to exploit home-based cost and supply advantages in the expansion of their host economy operations. But it may often be less useful in developed markets or restrictive of a competitively more advanced phase in the ownership of technologies and products. Fitzgerald and Rui emphasize the contribution of firm-level factors, but they do not stand in isolation from external considerations, such as government policy. In addition to the role of the Japanese and then the Chinese state in the industrialization of their home economies, both influenced the outward internationalization of firms. Japan’s government evolved into one of the world’s most active subsidizers of FDI, and the nature of the financial support met changing policy objectives. The focus shifted from the acquisition of natural resources, vital components, and the relocating of labour intensive or cost sensitive industries; the aim, from the 1980s onwards, was to assist with the costs of building full-scale subsidiary operations in developed markets. In the new century, the encouragement of technology acquiring FDI, cross-border mergers and acquisitions, and international managerial and technological interchange took prominence, and the Japanese government policy in effect acknowledged the new challenges JMNCs were facing in the global marketplace. Chinese managers in state-enterprises (SOEs) believed that they were obliged to join their government’s ‘go global’ policy, and many CMNC overseas contracts were associated with Chinese state aid or loans to emerging host economies. On the other hand, government support was viewed as unsystematic and not sustained. Despite notable achievements in numerous host economies, CMNCs lacked strategic intent and long-term planning, as indicated by continued failure to address shortfalls in technology, products or management methods. The cases analysed by Fitzgerald and Rui reveal the important relationship between home and host government policies and stages of economic development, on the one hand, and varying approaches to strategy, the utilization and evolution of core capabilities, and internal organization, on the other. The earlier phase of internationalization by JMNCs provides lessons for CMNCs, while indicating points of difference. The historical and contemporary comparison indicates the dynamic characteristic of FDI operations, in particular the complex challenges MNCs encounter in establishing themselves overseas and in initiating a further phase in their global competitiveness, and the influence of internationalization pathways in facilitating redirection and restructuring.

Jackson and Hemmart, for example, emphasize how established theories explaining the strategies and organization of MNCs were predicated on research into Western MNCs. They argue that these approaches can only partially explain the internationalization of Japanese and Korean MNCs, which they illustrate and compare through a series of case studies. The International Product Life Cycle suggests that the success of multinationals rests initially on product leadership that can be competitively exploited in foreign markets. With rising competition from imitators and falling profit margins, long-term success rests on further phases of innovation that can instigate another product life cycle. As well as prioritizing innovation over the firm as producer or marketer, the theory takes little account of the internal structures and procedures needed to generate product innovation, including recent trends in the internationalization of research and development within multinationals, and it does not consider how the cross-border vertical integration of production or contracting-out affect the uniqueness of a firm’s product. FDI decisions, for example, can become disconnected from its innovation management. The OLI model states that three advantages in Ownership, Localization and Internalization must apply in order to justify foreign investment: an O-advantage in technology, product or management enables a multinational to succeed in a foreign market; an L-advantage such as tariffs, labour skills, or nearness to customers explains the preference for FDI over exporting; and an I-advantage such as knowledge retention or production integration provides reasons for subsidiary control over licensing or contracting-out. In reviewing FDI in China, Jackson and Hemmart doubt if an essentially static framework can explain the speed with which some companies developed commercial activities in China. They note, in part answer, the relevance of political and commercial links or joint ventures with state firms or local producers in controlling institutional and market environments, in leveraging available advantages, or in compensating for competitive weaknesses. The role of Japanese trading firms further highlights the porous nature of firm boundaries and the contribution of external networks in shaping decision-making and organization building. The Uppsala model, on the other hand, predicts that multinationals and notably during the early phases of their international expansion will be concentrated in overseas markets that have geographical proximity or cultural and institutional similarity. Jackson and Hemmart note the difficulties of finding evidence from Asia Pacific multinationals that would substantiate the importance of cultural-institutional familiarity over other considerations. They stress the complexities and range of external and internal factors that shape MNC decision-making in investment, products, production, and marketing.

Following their analysis of Japanese and Korean cases, the authors call for more grounded research into the Asia Pacific and its multinationals, in order to address questions about the boundaries of firms, their strategies, and the sequencing and processes of investments and organization building. Jackson and Hemmart suggest that, while their study has shown similarity in the internationalization patterns of Japanese and Korean firms at an aggregated level, there have been important differences in the strategic behaviour of individual MNCs. As evidenced by their investments in China, Korean firms appear to be more risk-taking and flexible in their approaches, and so, despite their institutional-cultural similarities, current theoretical perspectives can hide micro-level differences. Their study seems to indicate difficulties in formulating models that might capture and predict the internationalization of East Asian MNCs generally.

Chadha and Berrill investigate the internationalization patterns of JMNCs, and demonstrate, in the era of low or falling economic growth in Japan, they they continued to ‘multination-alize’ and to establish themselves overseas. The authors conduct a longitudinal analysis of changing levels of ‘multinational-ity’ amongst firms listed on the Nikkei 225 between 1998 and 2013, categorized into ten industries, and they argue that there is a dearth of such studies on the topic. They measure ‘multinational-ity’ through foreign sales percentage, location of sales and location of subsidiaries, and their inclusion of subsidiary data represents a significant expansion on previous analysis. Chadha and Berrill confirm that manufacturing and extractive firms have a greater multinational dimension than service firms, and they discover that the consumer goods, technology, and oil and gas sectors are the most international and consumer services and utilities. Their data indicates that over four-fifths of the firms in their sample have subsidiaries of some type beyond the Asia Pacific region, and point to the continued ‘multinational-ization’ of JMNCs after the peak of their FDI in the 1980s and 1990s. Their results for JMNCs broadly reflect patterns amongst US and UK MNCs. They counter, moreover, established ideas that only a few MNCs are truly global, and that the vast majority are essentially regional in their investments and sales. Chadha and Berrill argue that most firms listed on the Nikkei 225 from 1998 to 2013 had exposure to North America and Europe as well as Asia, and that the number with a presence in Africa, South America and Oceania increased. In 2013, Japan registered as the second largest contributor to outward FDI, with the US taking first place, and information on FDI flows and subsidiary numbers shows a switch by JMNCs from Asia to Africa.

Horn and Cross continue the theme of looking at the internationalization patterns of JMNCs. They concentrate on Japanese FDI in India, and ask how established subsidiaries can embed themselves more effectively in rapidly growing emerging economies in furtherance of their internationalization strategies. They consider the wide range of discussions germane to the evolution of JMNCs, including networks and business group membership, the relocation and reconfiguration of production networks across the Asia Pacific region, at a national level the determinants of location choice, and cluster and agglomeration effects. Horn and Cross note bias in this literature to the study of developed host economies, the lack of research into location choice at a sub-national level, and the exclusion of industry as opposed to national factors. They present, as a result, a study of agglomerative behaviour by JMNCs in India, an increasingly important and open locale for inward FDI. The substantial differences in economic development, institutions and infrastructure between the regions of India make them a useful means of considering the localization behaviour of JMNCs in emerging markets at a sub-national level. Horn and Cross argue that geographic concentration and agglomeration effects constitute a prevalent characteristic of JMNC behaviour, and that these tendencies are observable in determining sub-national investment decisions in India. They begin by envisaging two trends. JMNCs may, in the first instance, evolve from their initial investments to greater engagement with the host economy business community and the building of localized production networks, as a key part of their international production base. They may, in the second instance, be inclined to move away from long-term geographic clustering at a sub-national level and towards more flexible inter-firm arrangements and off-shore networks based on cost considerations and the vertical fine-slicing of operations, as witnessed in recent patterns of global business.

Horn and Cross employ firm and state-level data to investigate the behaviour of JMNCs in India, and to draw conclusions about their strategic intent and localization levels. They identify, for JMNCs, six determinants of FDI location: market size, market growth, human capital, infrastructure, agglomeration, and manufacturing density. Studies highlight the influence of agglomeration on the international strategies and operational location of JMNCs. The geographical clustering of economic activity may be the outcome of locales progressively facilitating the procurement of human resources or intermediate products, and agglomeration induces spill-over effects through information-sharing and experience. Through their home economy traditions of vertically fragmented manufacturing, risk reduction, sub-contracting, information sharing, and business networks, JMNCs may be particularly responsive to agglomeration and geographical concentration. Horn and Cross indicate that Japanese FDI in India is at an early phase, and asks questions about how their subsidiaries can develop. As well as following other Japanese investors, they anticipate a preference for regions with traditions of manufacturing, since JMNCs in India are largely found in transportation, electronics, machinery, chemicals, and IT. The empirical analysis indicates the iterative interaction of several factors, namely the economic (levels of development, market access, labour quality), institutional (regional openness, economic zones) and infrastructure, and the prominence of agglomeration behaviour to date and for the future. India’s position within Japanese global production networks is problematic, given cultural differences and geographic distance between India and Japan, and the high risks associated with the policy and regulatory environment.

**Conclusion: Japanese Multinationals Past and Present**

The authors in the volume review influential concepts in the theory of multinational business and introduce a wide range of new data and case evidence. In doing so, they suggest questions about the legacies of JMNCs and their contemporary challenges in the global economy. As well as comparing past and present trends, the contributors compare the internationalization patterns of Japanese, Korean and Chinese MNCs, asking what lessons can be derived for each nation and for Asia Pacific business generally. They provide a useful opportunity to assess claims about the decline of the JMNC, and to consider more precisely what constitutes the macro and micro-economic challenges they are encountering. Their research and analysis enables us, too, to evaluate and compare more fully areas of continuing strength in management, organization and core competencies.

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