

The Palgrave Macmillan Comparative Responses to Globalization

Experiences of British and Japanese
Enterprises

Edited by

Maki Umemura and Rika Fujioka



Comparative Responses to Globalization

Also by Maki Umemura

THE JAPANESE PHARMACEUTICAL INDUSTRY: Its Evolution and Current Challenges

Comparative Responses to Globalization

Experiences of British and Japanese
Enterprises

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Notes on Conventions

This book uses the modified Hepburn system of romanization, which follows *Kenkyūsha's New Japanese–English Dictionary* (third and later editions). Macrons are used to indicate long vowels, except for terms or phrases commonly anglicized, such as Tokyo or shogun. Macrons are not used for Japanese company names as these are generally anglicized, or for referencing Japanese names if these were not used in the original English language work.

Names are presented in the Western order, with the forename followed by the surname.

1

Introduction – Comparative Perspectives on Globalization: Historical Reflections on British and Japanese Enterprises

Maki Umemura

Japanese firms have been global leaders in manufacturing. For several decades, services have been among the leading exports of Britain. Amid the current economic downturn, policymakers and business leaders in both countries have been debating how best to respond to the pressures of globalization by rebalancing their economies – albeit in opposite directions.¹ While Japan has attempted to develop its services sector, Britain has focused on reinvigorating its manufacturing sector.² The study of these ‘opposites’ raises some questions. For example, is Japan simply following Britain’s path of deindustrialization? If we believe in the free market and Michael Porter’s argument of competitive advantage, we would assume that countries would do well to specialize, or become ‘unbalanced’. Yet both economies appear keen to achieve greater ‘balance’. Does history suggest that countries prefer ‘balance’ over ‘imbalance’ amid globalization?

For the past few decades, we have observed globalization of a different magnitude from previous periods of history, bolstered by advances in information technology and government deregulation. As Manuel Castells has argued, in this ‘new economy’, competitiveness has become a product of knowledge generation and information processing.³ The organization of firms in many countries has changed dramatically. Companies now operate as networks of production, management, and distribution, and conduct business in different regions across different time zones. The 2008 credit crisis and the threat of contagion from the Euro crisis have underscored the degree to which economies

are now interconnected. The issues that arise in the globalization literature – such as the rise of multinational companies or the changing nature of technological innovations – are phenomena that were observed during globalization in the past.

This book offers a collection of essays on business history that examine how British and Japanese firms have responded to the pressures of globalization at various points in time. Around the world, firms have responded to globalization in diverse ways, from expanding their operations, differentiating their products, normalizing risk, to adopting new knowledge. The chapter contributions are written by academics from diverse academic backgrounds who specialize in different industries. They have adopted varied methodological approaches and have used a rich range of published and archival resources in both Britain and Japan. The fruits of their research are not intended to offer a comprehensive or straightforward assessment of the reasons behind the success or failure of business amid globalization. We do, however, hope to shed light on the diversity of perspectives on the responses of British and Japanese enterprises to globalization.

The aim of this book is to offer a series of historical case studies of British and Japanese firms to enhance our understanding of firms' responses to globalization in British and Japanese business history. In the process, we hope to shed light on the impact of the institutional setting, the influence of government and entrepreneurs, and the weight of historical contingency in conditioning firms' responses. We also consider the extent to which the 'varieties of capitalism' and cultural distance concepts help us to understand how firms respond to globalization.

On globalization

Academics have defined 'globalization' in a number of ways. The economist Joseph Stiglitz has referred to globalization as 'the closer integration of the countries and peoples . . . brought about by the enormous reduction of costs in transportation and communication, and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and (to a lesser extent) people across borders'.⁴ The journalist Thomas Friedman has popularized this definition of globalization as the interweaving of markets, technology, information systems, and telecommunication networks in a way that is shrinking the world into a single market.⁵ The sociologist Anthony Giddens has defined globalization as 'the intensification of worldwide social relations which link

distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa'.⁶ We believe that the best working definition of globalization is one that refers to the increasing interconnectedness and interdependence of different regions in the world, recognizing a range of factors – from trade to information flows – as contributing to this process.⁷

Historians have vigorously debated the origins, causes, and consequences of globalization.⁸ One of the liveliest debates is about when globalization actually began. Some argue that globalization began well before the Christian era, while others associate it with the post-1945 period, when governments cooperated to open their markets.⁹ A few even restrict the term to the last 30 or so years.¹⁰ The most common view is that globalization began with the creation of the European empires in the age of discovery.¹¹ While there are a substantial number of works that examine the impact of globalization on firms, most such studies focus only on the recent phase of globalization, since the late 1970s.¹² The research presented in this collection places these developments in a historical perspective, as firms have been responding to globalization since at least the nineteenth century.¹³ We believe that taking a long-term perspective helps better account for how different institutional contexts shape divergent responses from firms.

Jeffrey Frieden has convincingly argued that globalization has not been a linear process and that it has been reversed in certain periods of history. The years between 1914 and 1945, for example, have been regarded as an age of deglobalization.¹⁴ According to this perspective, the globalization of the post-1945 period is a reconstitution of the integrated global economic order that was undermined by the First World War.¹⁵ Whether in Britain or Japan, the animosity between nation-states in the interwar period prompted governments to erect protectionist barriers. In the post-1945 period, countries forged new collaborative efforts to foster the integration of markets. As the contributions in this volume suggest, Japanese and British firms played important roles in these developments.

In addition to timing, academics have also debated the causes of globalization. Some maintain that the reduction of transportation and communication costs is the key driver of global economic integration.¹⁶ The evolution of transportation technologies, from ships to automobiles and airplanes, as well as developments in communication technologies, from the telegraph, the telephone to the Internet, have altered previous conceptions of 'distance'. However, focusing on technology

explains neither why there have been periods of deglobalization nor why some countries have embraced globalization more than others at specific points in time. Globalization takes place partly as a result of politics and government policy.¹⁷

Perhaps one of the most important academic controversies involves the consequences of globalization. At the level of the individual firm, companies may respond to globalization by any number of means: from making production processes more efficient; innovating, standardizing, or expanding their product offerings; to expanding their business in overseas markets. More broadly, there have been major debates as to whether the pressures of globalization and deregulation are leading to the erosion of the differences between the economic systems of countries.¹⁸ Some have suggested that in the second half of the twentieth century the capitalist systems of industrialized countries came to resemble that of the United States, which is characterized by flexible labour markets and a managerial focus on maximizing returns to shareholders.¹⁹ The British system shares similar traits with the American model. Yet while the Japanese system has undergone considerable reforms since the burst of its bubble economy in the 1990s, it has yet to converge with the American model. Peter Hall, David Soskice, and Vivien Schmidt have stated that the differences in political and economic institutions lead firms to generate divergent responses and outcomes – and limits convergence.²⁰

Comparing Britain and Japan

Britain and Japan offer good historical case studies through which to examine how firms have responded to pressures of globalization for several reasons. The comparison of Britain and Japan is particularly useful when considering the ‘varieties of capitalism’ paradigm developed by Peter Hall and David Soskice.²¹ Scholars writing on the varieties of capitalism have often distinguished the liberal market economies (LMEs), such as Britain and the United States, from the more coordinated market economies (CMEs), such as Germany and Japan.²²

In LMEs such as Britain, firms coordinate their activities through the market mechanism, and conduct transactions through arm’s-length market exchanges and formal contracting. In this environment, the government tends to impose lower taxes and fewer regulations, and provide weaker social programmes. Scholars have argued that firms in LMEs tend to feature greater labour mobility and to emphasize returns to shareholders.²³ By comparison, firms in CMEs engage in more relational or

incomplete contracting and network monitoring that is based on the exchange of private information within networks, and they also rely upon collaborative relationships. In this environment, firms tend to exhibit long-term relationships with their employees, other firms, and government. Critics have often argued that firms in LMEs tend to be focused on short-term goals whereas those in CMEs are focused on long-term goals.

Debates on the varieties of capitalism are acutely relevant to business performance in the global economy today. Following the financial crisis of 2008, public discussion in Britain has moved towards the need for its firms to embrace a longer-term perspective, and away from a previous emphasis on the shareholder and profit-centred model of capitalism. Conversely, however, public discussion in Japan has revolved around the need for its firms to adopt more flexible forms of organization and to shift towards a more market-oriented model that will allow firms to respond swiftly to changes in market conditions and strengthen knowledge-intensive industries.

Many scholars have highlighted the features of personal capitalism among British firms, compared to the collectivist form of capitalism among Japanese firms.²⁴ Firms in Japan, for example, have showed distinct features such as lifetime employment, *keiretsu* relationships, and multiple tiers of subcontractors. This book offers a forum for examining the extent to which firms in different institutional settings have responded to globalization over time. The studies presented also question the fluidity of these institutional settings throughout history and how such fluidity shapes firm responses.

Case studies of British and Japanese business also help to address the growing body of work on the role of cultural distance in international business, on issues ranging from innovation to overseas expansion.²⁵ In some ways, Britain and Japan may be considered culturally distant. While Britain, situated in the West, features a global language and culture familiar to most of the developed world, Japan is situated in the Orient, with a language spoken by far fewer people and characterized by a non-Western – although Westernizing – culture. Britain has a long history of growth through internationalization, whereas Japanese firms have relied on the domestic market for growth. Along these lines, Pankaj Ghemawat has recently argued that the cultural, administrative, geographic, and economic distances between countries depress bilateral trade patterns and other cross-border flows.²⁶ The literature on cultural distance suggests that one would observe different responses to globalization by firms in Japan compared to those in Britain, since Britain is

much closer 'distance'-wise to much of the developed world in Europe and North America than is Japan.

Recently some Japanese firms have moved to reduce the cultural distance between themselves and foreign markets by making English their 'official language'. Companies that have adopted this strategy of 'Englishization' include the clothing retailer Fast Retailing and the Internet services company Rakuten.²⁷ By switching to English, these companies hoped to lower the cultural and linguistic barriers that hinder Japanese firms' performance in world markets. This collection advances our understanding of how cultural distance influenced the international operations of British and Japanese firms in the past.

While literature on both the 'varieties of capitalism' and cultural distance concepts help justify our selection of Britain and Japan, it should be noted that the logic underlying the two ideas is contradictory. Under the 'varieties of capitalism' framework, for example, firms in Germany and Japan – as CMEs – share greater similarities compared to firms in Britain and Germany. The cultural distance construct suggests the reverse – that firms in Britain and Germany share greater similarities than firms in Germany and Japan.

Britain and Japan also provide useful case studies for considering ways in which certain economies have developed sectoral strengths amidst globalization. Compared to Japanese firms, which have been more successful in the manufacturing sector, British firms have been more successful in the services sector. In terms of trade, for example, Britain has been a net exporter of services and a net importer of manufactures, while the reverse has been true for Japan.²⁸

Much of the existing literature on Japanese business has tended to focus on the effect of government or management practices on industry performance.²⁹ The 'varieties of capitalism' literature suggests that the institutional configurations in LMEs foster comparative advantages in sectors involving radical innovation such as pharmaceuticals. On the other hand, CMEs develop comparative advantages in sectors characterized by incremental innovation such as automobiles. Michael Porter, in *The Competitive Advantage of Nations*, however, cautioned against over-generalizations. He argued that the reason why countries developed a competitive advantage in certain sectors was due, in addition to government influences and chance, to four main reasons: factor conditions, demand conditions, related and supporting industries, as well as firm strategy, structure, and rivalry. This volume sheds light on the discussion regarding the sources of sectoral performance through several sector-specific studies, including on automobiles and pharmaceuticals.

A business history approach

This book builds upon general works on international business history and contributes several pieces of more focused research that help refine our understanding of Japanese and British business history. We situate our work within the growing body of literature on international business history. Geoffrey Jones, Mira Wilkins, and Mark Casson, for example, have produced excellent general histories of multinationals.³⁰ In terms of works specific to Japan, Matao Miyamoto, Takeshi Abe, Masaru Udagawa, Minoru Sawai, and Takeo Kikkawa have produced a comprehensive volume on the evolution of Japanese business from the seventeenth century to the present, as have Masaru Udagawa and Seishi Nakamura.³¹ Mira Wilkins has written on Japanese multinationals before 1914, while Takeo Kikkawa and Fumikatsu Kubo have recently published a book on the changes in Japanese firms since the mid-1980s, as Japanese firms have increasingly been exposed to global competition.³² A few examples of the many excellent works on British business history include those by M.W. Kirby, Mary Rose, John Wilson, and Leslie Hannah.³³ Richard Coopey and Peter Lyth recently published an edited collection that offered a reconsideration of the general view of the decline of British business in the twentieth century.³⁴

Despite much research and discussion on globalization, the number of comparative works on business history remains limited. This book helps to address this gap. The studies in this book are on a particular firm or sector in either Britain or Japan. As with a number of existing volumes on British and Japanese business, we have tried to emphasize the comparative element by linking studies of firms in both countries that look at similar issues such as empire, entrepreneurship, and the state. We also look at studies of particular sectors, such as automobiles and pharmaceuticals, over different time periods in the two countries.³⁵

The scholarship presented in this book was undertaken in a specific historical context: a period in which Japan's economy was stagnant and Britain's was relatively strong. In the 1970s, when the British economy was referred to as the 'sick man of Europe', much of the research on British business and economic history was framed as an attempt to explain why the country had experienced relative economic decline.³⁶ For example Ronald Dore's 1973 book *British Factory–Japanese Factory* praised Japanese employment relations and organizational practices.³⁷ In contrast with the 'declinist' literature on British business, many publications about Japanese business from this period were positively celebratory. Since 1990, these two narratives of national economic

performance have been undermined. Japan, which was considered an economic juggernaut in the 1980s, has suffered 'lost decades' since the 1990s. Britain, on the other hand, experienced improved economic performance between the 1980s and early 2000s. Much of the existing literature comparing British and Japanese business was written in the 1980s and sought to explain why Japanese firms were strong and British ones were weak. In the second decade of the twenty-first century, this research question is no longer relevant. This book provides a much-needed reconsideration of the prevailing views of Japanese success and British failure – much of which was based on the notion of Japan's post-war economic success and Britain's relative decline.

Since the end of Japan's high-growth era, a number of business histories have been written on Japanese and British companies. In 1997 Etsuo Abe and Terence Gourvish published a book entitled *Japanese Success? British Failure? Comparisons in Business Performance since 1945*.³⁸ Their book offered a collection of case studies that discussed the role of government, management, education, and finance in British and Japanese business performance. Their volume also included sector-specific studies on the automobile and consumer electronics industries. Henry Laurence has more recently examined the cross-national convergence of Anglo-Saxon and Japanese capitalism through a study of British and Japanese financial markets since the 1980s. Robert Fitzgerald and Etsuo Abe have recently focused on the issues of corporate governance over a range of sectors in *The Development of Corporate Governance in Britain and Japan*.³⁹ Mansel Blackford has also published an updated version of his comparative business history in *The Rise of Modern Business in Great Britain, the United States, Japan and China*.⁴⁰ We believe that our book offers a valuable addition to these works by addressing the topical issue on the role of globalization in British and Japanese business performance. We also address the issue of convergence raised in the volumes by Laurence, Fitzgerald and Abe, and Blackford, and support the view that there are limits to this convergence. Following a time in which Japan has transitioned from being an economic powerhouse to being a nation in long-term stagnation, we also provide more diverse perspectives on a range of sectors and issues in British and Japanese business history.

Our historical approach to studying business is important, especially at a time when complex theories and models tend to dominate economic and business scholarship. The historical perspective not only provides context but also questions some widely accepted concepts.⁴¹ In this book we question the 'varieties of capitalism' framework mentioned earlier by considering the fluidity of institutions. For example