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# Internationalization of Japanese Business Groups – Literature Review

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**ABSTRACT** The internationalization of Japanese business groups (JBG) have been subject to intense scrutiny since JBG shot to world stage in the 1980's. Studies on the internationalization of JBG have been fragmented in scope and have mainly focused on specific behaviors e.g. mode of market entry, knowledge creation, knowledge flows between headquarters and overseas subsidiaries, overseas market development and sales strategies, to name a few. Little attention has been paid, however, to explaining the reasons behind these behaviors. This literature review aims to contribute to filling this gap by recognizing the internationalization's embeddedness in the country's institutional environment, thus providing a more nuanced understanding of the drivers behind these behaviors as well as the intrinsic obstacles that may hinder the outcomes of these internationalization efforts. This study also hopes to answer the theoretical question called for by (Zaheer, Gözübüyük and Milanov, 2010) in their excellent work "It's the connections: The network perspective in interorganizational research: "How do organizations balance the benefits of trust and embeddedness with the costs of lock-in and inflexibility with the same set of partners?" The holistic perspective of this review has wide ranging managerial implications in terms of effective intra-organizational dialogue, stakeholder management, organizational knowledge management, among others.

**KEYWORDS:**
Internationalisation; Organizational knowledge management; Business groups

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## 1. Introduction

This study overviews over 90 articles that have explanatory power for the internationalization of JBG in the following order: 1. Network organizations' organizational logic 2. JBG's organizational logic from historic antecedents to modern day forms 3. Institutional logic of JBG 4. Internationalization of the JBG focusing on network, Uppsala model, institutional, control and resource contingency perspectives. As results produced by the initial keywords of "keiretsu", "zaibatsu", "Japanese management", "internationalization of Japanese companies" proved narrow, search was expanded to include the following keywords: "business group", "Japanese business group", "Japanese conglomerate", "Japanese companies' overseas expansion", "organizational knowledge management", "Japanese companies' knowledge management". Keyword search encompassed title, abstract and body. JBG' large scale internationalization drive in the 1980's took the world stage by surprise. To remove bias that may be produced by the novelty of such a move, the English language articles have been drawn from business journals published between 1990 and 2018. As the relevance of the early studies on Japanese management (1950's through 70's) continues undiminished to this day, the above mentioned journal articles published between 1990's through 2018 are supplemented with these classical works. As for publications in the Japanese language, white papers from various industry and university journals published between 1998 and 2018 and government databases were

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accessed in order to provide an additional perspective not yet accessible in international literature. Publications were accessed directly through publishers as well as CiNIi and Google Scholar platforms, government databases. Findings are summarized in four clusters. 1) “History matters”: JBG’s social organizational mechanism and historical antecedents 2) “Alliance capitalism”, the Japanese zaibatsu and keiretsu business networks; role and impact on state and economy 3) The international Japanese firm 4) Framework: Drivers and inhibitors of internationalization of JBG and call for further research. In Section 1) “History matters”, an explanation is given as to the reason for conducting the literature review on JBG internationalization from an institutional perspective. Body of research explaining the organizational mechanism of the Japanese model of capitalism from a theory of clan perspective follows, which is then directed to define the feudal merchant family of Japan as the institutional logic for and historic antecedent of modern day JBG. Reversely, JBG is defined as a hybrid organizational form combining characteristics of both clans and capitalist organizations and is coined as “alliance capitalism” or “network capitalism”. Section 2) “Alliance capitalism”, reviews literature on JBG’s evolution from the formative ages of the previous section through the present day. JBG’s evolutional history is complemented with JBG’s respective role and impact on the state and the economy through key historic milestones. Section 3) “The international Japanese firm”, follows JBG from country builders to international players. Specific internationalization behaviors are examined and explained focusing on network, Uppsala model, institutional, control and resource contingency perspectives. Finally, Section 4) summarizes and reorganizes findings in a dynamic framework that highlights both internal and external factors for JBG internationalization drivers and inhibitors; identifies competitive strategies applied in the face of such drivers and inhibitors and points to gaps between these competitive strategies and the change agents. Finally, the framework summarizes the change mechanism deemed most relevant by this author in light of JBG’s institutional and organizational embeddedness.

## 2. Theoretical framework

### *2.1. History matters*

“The human economy was always embedded in society […] subordinated to politics, religion, and social relations.” (Polányi, 1944)

Institutional logics are the rules of the game, they “provide the master principles of society and guide social action” (Thornton, 2004; Greenwood et al., 2010) through “symbolic systems, ways of ordering reality”, which thereby “render the experience of time and space meaningful” (Friedland and Alford, 1991). By “rendering time and space meaningful”, these ways of ordering reality gain legitimacy, which, in turn, lead to acceptance and shared interpretation. The ways of ordering reality can be formal, i.e. rules and regulations, and informal i.e. code of conduct (Chan, Isobe and Makino, 2008). Organizations strive to be consistent with their environment in order to “acquire legitimacy and recognition by adopting structures and practices viewed as appropriate in their environment” (Romanelli, Powell and DiMaggio, 1992; Tarique and Schuler, 2010). According to North (1990) cited by (Oleinik, 2004), the main institutional orders are the economy, politics, society and technology; while in Thornton’s (2004) elegant rendering, these orders are “the market, the corporation, the professions, the family, the religions, and the state.” The institutional orders have evolved over time; in addition, time as a philosophical-historical-socioeconomic-political concept has descriptive power in shaping our reality. The organizational forms and processes are, therefore, time dependent (D’Aunno, Sutton and Price, 1991; Friedland and Alford, 1991). For this reason, it is imperative to start exploring Japanese business groups’ (JBG) internationalization from JBG’s historical context.

Studies on the Japanese model of capitalism date back to the 1950s, when American and English scholars first described Japanese management forms. Japanese academics turned their attention to describing and explaining Japanese management models after the publication of these early books’ translations (Hirano, 2011). To explain Japanese companies’ post-war achievements, Japanese scholars, with a few exceptions, pointed for answers to the Meiji Restoration era – late 19th, early 20th century (Matsushima, 1962; Hazama, 1964; Okouchi, 1959, 1961 cited in Hirano, 2011); while at the same time overseas and a few Japanese researchers would emphasize continuity with the pre-industrial ages (Dore, 1973; Nakane, 1973; Abegglen, 1980; Aoki and Patrick, 1994; Hirano, 2011).

Abegglen, in "The Japanese Factory" (1958), described a highly effective way of control by implicit mechanisms achieved by extensive socialization, which sparked a keen interest worldwide in the Japanese form of management. This form of control by social immersion – training inexperienced young hires, having them embrace corporate identity as their own and compensating according to non-performance (belonging) related criteria (Dore, 1973; Nakane, 1973; Abegglen, 1980; Ouchi, 1980; Gerlach, 1997) brought up for consideration the clan organizational form as an explanation for the mechanism to achieve "continued cooperation of individuals towards a common and explicitly recognized goal" (Blau and Scott, 1962 cited in Ouchi, 1980). As understood, organization members have few overlapping interests, therefore are not going to share the same level of devotion for an organization's objectives (Ouchi, 1980). The clan form of organization, on the other hand, has proven to be a highly effective and efficient mechanism to achieve just that. The clan is an organically developing organizational form (Durkheim, 1933 cited in Ouchi, 1980) and "resembles a kin network but may not include blood relations" (Ouchi, 1980). The clan maximizes identification with organizational goals by near complete socialization and a high level of inclusion (Etzioni, 1965; Fruin, 1980; Ouchi, 1980). To make the resemblance with the "Japanese factory" complete, the clan's criteria for compensation are highly ambiguous, prioritizing group belonging over achievement. The regularity of relationships in a tight-knit group will provide a more effective control over members, than explicit mechanisms i.e. rules and regulations would (Fruin, 1980; Ouchi, 1980). On the other hand, the same strong bonds that promote "efficiency in social and economic functioning through mutual cooperation" do not promote trust (Yamagishi, 1998; Yamagishi, Kikuchi and Kosugi, 1999; Fukuyama, 2000). Tight-knit organizations, groups prefer cooperating with in-group members, as outsiders are perceived as a source of risk. Building relationships with groups is a critical, time consuming process. Once a relationship is built, it provides assurance for the newcomer's being appropriate as to the "rule of the game".

Expanding the theory of the clan as an organizational mechanism to explain Japanese management practices, Bhappu (2000) substantiates, that modern Japanese corporate networks' institutional logic is the merchant family of feudal Japan. The Japanese merchant family was an "organization with social, economic and moral aspects" (Nakane, 1973; Bhappu, 2000). The merchant family was a network built on strong hierarchical ties among the main family and its branches. The main family carried the family business, while the branches performed certain functions and/or expanded the business by breaking out into new locations (Fruin, 1980). Recruitment into the family a.k.a. corporation was by birth, marriage and adoption. These people took the family name and were socialized-trained into the framework of the family. Due to the implicit nature of the family-corporation rules, new members spent long years learning in order to be fully functional (Ouchi, 1980). Status within the family was allocated on the basis of loyalty i.e. age and tenure, rather than genealogical closeness of ties to the main family. In exchange for full commitment, family members were rewarded in the form of security i.e. lifetime employment (Bhappu, 2000). Dominant merchant families were experienced both in business activities and banking; in addition, they had strong connections to the state. These dominant merchant families grew into holding groups a.k.a. zaibatsu during the feudal system's transformation (late 19$^{th}$ century) into monarchy driven by a capitalist economy (Morck and Nakamura, 1999, 2010; Bhappu, 2000; Grabowiecki, 2006). This transformation did not dilute, however, the strength of (largely) familial ties. Belonging based on kinship ties was complemented by the recruitment and complete social immersion of a vast number of non-kin associates (Ouchi, 1980). Consequently, a hybrid organizational form emerged which combined the characteristics of both clan and capitalism, and which was coined a century later "alliance capitalism" (Gerlach, 1992), "network capitalism" (Oleinik, 2004). For this reason, "zaibatsu" and their modern post-war form, "keiretsu" will be hereafter referred to as Japanese Business Groups (JBG).

### *2.2. Alliance capitalism*

The zaibatsu form of JBG were enlisted in the service of the state to support the industrialization of the country during the Meiji Restoration (late 19$^{th}$ century) and the Taisho (early 20$^{th}$ century) periods.

In this corporate hierarchy, the holding company (parent company) was at the top controlled by the founding clan and was managed mostly by appointed professionals. Under the holding company, there was a “network of suppliers and subsidiaries as well as dependent firms” (Grabowiecki, 2006; Morck and Nakamura, 1999; Okazaki, 2000). To finance the industrialization of the country, zaibatsu clans issued stocks which, in turn, paved the way for these companies’ swift growth and consecutive expansion (Okazaki, 2000). To maintain competitive advantage, JBG continuously reconstructed their pyramidal structures. Companies, that lost competitive advantage and/or market relevance were shifted down in the pyramid network and were substituted by other companies. As an alternative to reorganizing the corporate pyramid, new holding companies would be established (Grabowiecki, 2006; Morck and Nakamura, 1999; Okazaki, 2000; Yonekura, 1985) . With the post-war dissolution of the zaibatsu by the American authorities, prewar merchant families were replaced in the corporate hierarchy of JBG; first by individual investors, and then by financial institutions and companies of other business groups (Grabowieckzky, 2006; Morck and Nakamura, 1999). The newly formed JBG of the 1960’s (keiretsu) are both a form of ownership and function. While the ownership of JBG changed from (family) holdings to cross-shareholdings, the pre-war control and coordination functions remained unchanged: optimization of operations by distribution of knowledge, processes and resources within the group and its alliances. A relational perspective may provide an explanation to the relatively seamless post-war transition: the pre-war formal and informal relationships of JBG endured and continued, as did the centuries old organizational philosophy built on paternal commitment-responsibility relationships. Paternal employment relations, such as recruitment of inexperienced workers, heavy investment in training, lifetime employment, compensation based on tenure remained, as did the close brass-and-field connection in the form of the coordination between the board of directors and the labor unions (Aoki and Dore, 1994; Morck and Nakamura, 1999; Grabowiecki, 2006; Tsuneki and Matsunaka, 2011; Tsuneki, 2012).

JBG played a key role in the cataclysmic upheavals of industrial transformation, post-war reconstruction as well as major macro-economic shocks of the 1974 oil crisis and 1986 currency crisis (Lincoln,Gerlach and Ahmadjian, 1996; Grabowiecki, 2006). JBG drove economic growth and structural upgrading, managed to close the technology and productivity gaps, fastened recovery after macroeconomic shocks (Lincoln, Gerlach and Ahmadjian, 1996). In addition, these structural transformations were achieved “without labor unrest, government subsidies or business failures”. According to relational theorists, relationships contributed to the organizational success of JBG by achieving a high level consensus among its members as to corporate objectives (Ouchi, 1980), by optimizing resource exchange, promoting efficiencies and facilitating on-going adaptation processes, acquiring, disseminating and leveraging knowledge, which thus constituted competitive advantage (Hitt, Lee and Yucel, 2002; Yiu, Bruton and Lu, 2005; Khanna and Rivkin, 2006; Hadjikhani, Lee and Ghauri, 2008; Gulati, Sytch and Tatarynowicz, 2012). From a contingency perspective, JBG’s embeddedness i.e. complex and uninterrupted adaptation to their (home) institutional environment constituted the source of success (Nadler and Tushman, 1980; Aoki and Dore, 1994; Uzzi, 1996; Hitt, Lee and Yucel, 2002; Collinson and Rugman, 2008). Other contingency theorists explain success (performance – survival) as an outcome of the institutional environment (Goshal and Westney, 1993), more specifically, JBG’s proximity to state (Bhappu, 2000; Dujarric and Hagiu, 2009; Grabowiecki, 2006; Kushida, 2011; Morck and Nakamura, 1999; Okazaki, 2000), access to financing (Aoki and Patrick, 1994; Weinstein and Yafeh, 1998; Morck and Nakamura, 1999; Okazak, 2000; Yiu, Bruton and Lu, 2005; Yiu et al., 2007). Trust theorists (Yamagishi, 1998; Yamagishi, Kikuchi and Kosugi, 1999; Fukuyama, 2000) point to the collectivist nature of JBG, being critical to promoting efficiency by “social and economic functioning through mutual cooperation within highly cohesive, closed and secure relationships”.

These very JBG strengths, at the same time, may inhibit growth after reaching a critical threshold (Uzzi, 1996). JBG struggle to adapt to a new competitive environment characterized by domestic market liberalization and deregulation of the financial system. The period of long stagnation since the 1990s has continued to this day. Cited among the costs of the JBG model are, low risk appetite discouraging innovation, inertia of knowledge management systems and operations, poor governance due to adverse selection (Morck and Nakamura, 1999, 2010; Collinson and Wilson, 2006; Dujarric and Hagiu, 2009; Kushida, 2011), financial subsidization of poor governance (Aoki and Patrick, 1994; Weinstein and Yafeh, 1998). In addition, the enduring tight-knit relationships of mutual commitments and obligations, that gave JBG their competitive edge (Yamagishi, 1998; Fukuyama, 2000; McPherson, Smith-lovin and Cook, 2001; Gulati and Sytch, 2008; Kleinbaum, Stuart and Tushman, 2011), tend to be location specific. Home and regional advantages translate poorly, if at all, into global advantages (Hitt, 2002; Khanna and Rivkin, 2006; Collinson and Rugman, 2008).

Punctuated equilibrium model (PEM) theory explains the (JBG's) resistance to changing course as a "tendency of a system to maintain internal stability owing to the coordinated response of its parts to any situation tending to disturb its normal condition or function" (Pauwels, 2004). Trust theorists explain this tendency of JBG to maintain the status quo with the collectivist nature of Japanese business relationships, as cited above, "efficiencies are achieved in social and economic functioning through mutual cooperation within highly cohesive, closed and secure relationships". These relationships prevent the firm, however, from opening to outside relationships when these outside relationships prove more profitable than the existing set of relationships (Yamagishi, 1998; Yamagishi, Kikuchi and Kosugi, 1999; Fukuyama, 2000). Seen from a network perspective, JBG represent the paradox of embeddedness (2008; Uzzi, 1996). As defined by Uzzi, "embeddedness is a logic of exchange that promotes economies of time, integrative agreements, Pareto improvements in allocative efficiency, and complex adaptation." Positive effects of embeddedness will not rise beyond a threshold; at which point embeddedness holds back performance by making firms vulnerable to external shocks or by insulating them from external pools of knowledge. In the spirit of Uzzi, (Hémous and Olsen, 2018) demonstrate that fewer innovations are developed in countries governed by tight business relationships, as innovators are discouraged from breaking up existing long-term relations in favor of new ones. Collinson and Wilson (2006) substantiate, that technological innovations are hurt as the knowledge sharing routines prove to be inadequate to devise and implement new strategies. Kushida (2011) goes further to illustrate that binding relationships can insulate the firm from global information pools and markets. Dujarric and Hagiu (2009) point out that traditional hierarchical structures are inappropriate to counter the accelerating changes in technology, business models and market dynamics driven by "platforms and horizontal ecosystems of firms producing complementary products". While JBG drive highly innovative and competitive sectors on the home market, their mostly or exclusively home market orientation results in missed opportunities on global markets for members tied to these ecosystems.

### *2.3. Internationalization*

Literature on the internationalization of JBG is grouped in four categories – the Uppsala internationalization model, institutional theory, structural contingency theory, and lastly, control and coordination theory, findings from each of which will be described hereafter under respective sub-headings. Each sub-heading starts with a brief theoretical outline and is followed by references to JBG behaviors, polemics and academic critique in the extant literature.

#### *2.3.1. Uppsala model of internationalization*

Poised and straightforward, the Uppsala model of internationalization is one of the most studied-cited models in the internationalization literature (Johanson and Vahlne, 1977, 2009; Hadjikhani, 1997; Forsgren, 2016). According to the model, firms internationalize in four sequential stages a) irregular export, b) export via agents, c) sales subsidiary, d) extension of activities in the target market by gradually acquiring market, relational and institutional knowledge and increasing tangible and intangible commitment (Hadjikhani, 1997; Pauwels, 2004). Pauwels et al. (2004) define internationalization knowledge as "experiential knowledge of the firm's capability and resources to engage in international operations". JBG that manage to amass relevant international experiential knowledge, are less sensitive to investment uncertainty (Pauwels, 2004). Having gained international experiential knowledge, JBG tends to escalate the initially low-resource commitment of exporting to higher commitment modes of foreign direct investments (Carneiro, Rocha and Silva, 2008). According to Cassio-de-Souza and Ogasavara (2018), local experience has a great impact on JBG's survival in a foreign market (Chan, Isobe and Makino, 2008; Wang and Larimo, 2015; Isobe, Makino and Montgomery, 2000; Souza and Ogasavara, 2018). Notwithstanding the international experiential learning's demonstrated positive effects, there is a tendency among JBG to "replicate existing supplier and distribution relationships in the host countries", thereby reducing exposure to the local environment/knowledge pools (Belderbos and Heijltjes, 2005; Belderbos, Ito and Wakasugi, 2008). In addition, Ogasavara and Hoshino (2005) substantiate, that while accumulated local knowledge boosts JBG performance in the host country, JBG's prior multinational knowledge imparts a negative effect (Ogasavara and Hoshino, 2005). Maki and Sekiguchi identify three stages of JBG internationalization, namely a) export, b) internationalization of operations and c) internationalization of management (Maki and Sekiguchi, 2016). According to the authors, JBG have mostly transitioned from exports to the internationalization of operations. The internationalization of management i.e. going beyond efficient coordination to adapting new knowledge management and control systems, however, is still in the early stages. The forerunners in this internationalization transformation are the JBG, whereby operational and management capabilities as well as knowledge management systems of headquarters are transformed in tandem with those of overseas affiliates (Maki and Sekiguchi, 2016; Matsuda, 2018a).

*2.3.2. Institutional perspective*

As discussed above, institutional logics are the rules of the game, they "provide the master principles of society and guide social action" (Thornton, 2004; Greenwood et al., 2010) through "symbolic systems, ways of ordering reality", which thereby "render the experience of time and space meaningful" (Friedland and Alford, 1991). By "rendering time and space meaningful", these ways of ordering reality gain legitimacy, which, in turn, leads to acceptance and shared interpretation. Organizations strive to be consistent with their environment in order to "acquire legitimacy and recognition by adopting structures and practices viewed as appropriate in their environment" (Romanelli, Powell and DiMaggio, 1992; Tarique and Schuler, 2010). Economic sociologists (Fisman and Khanna, 1998; Granovetter et al., 2004; Khanna and Yafeh, 2005; Khanna and Rivkin, 2006) view firms' organization forms as an outcome reflecting these firms' adaptation to their respective institutional environments. Firms' adaptation to the institutional environment can also be interpreted as a means to achieve higher performance i.e. survival (Nadler and Tushman, 1980; Collinson and Rugman, 2008).

As evidenced in the history of JBG, JBG sustained relevance and growth over the centuries by a continuous and complex incremental adaptation to their institutional – home, environment (Uzzi, 1996; Morck and Nakamura, 1999, 2010; Hitt, Lee and Yucel, 2002; Grabowiecki, 2006; Belderbos, Ito and Wakasugi, 2008). On the other hand, home and regional advantages translate poorly, if at all, into global advantages (Hitt, Lee and Yucel, 2002; Khanna and Rivkin, 2006; Collinson and Rugman, 2008). Hence, the location specificity of JBG's tight-knit relationships of mutual commitment and obligations, that gave JBG their competitive edge in the home region, have proven to be hindering internationalization. In order to internationalize successfully, up-to-date and relevant knowledge and practices need to be accessed, absorbed and disseminated across the JBG network regardless of where this pool of knowledge and practices originates (Tarique and Schuler, 2010). To allow knowledge flows to disseminate regardless of their origin, JBG would have to reconstruct the present strict core-periphery network structure into a more lateral network. Due to the resistance of embedded networks, this has been proven to be a challenge (Uzzi, 1996; Pauwels, 2004; Tsuneki, 2012).

As mentioned in the beginning of this paper, firms' adaptation to the institutional environment is a means to achieve higher performance i.e. survival; whereby success is understood as survival, which in turn, is understood as effective adaptation to the institutional environment (Collinson and Rugman, 2008; Nadler and Tushman, 1997). To evaluate the degree of JBG's institutional adaptation in host countries, JBG overseas subsidiaries' performance is measured against the institutional distance with the host country. Geographical proximity is found to boost JBG affiliate performance (Somlev and Hoshino, 2005; Chan, Isobe and Makino, 2008). It is found that knowledge distance i.e. integration and knowledge transfers, home-host country knowledge levels and the influence of expatriates in the dissemination and utilization of knowledge have a negative effect on JBG subsidiary survival (Souza and Ogasavara, 2018). Rather counter-intuitively, it is also discovered, that cultural difference in fact promotes JBG subsidiary survival (Souza and Ogasavara, 2018). While explanations differ on this point, it is reasonable to believe, that when faced with a significant cultural distance, JBG will make a higher level of commitment in terms of learning and knowledge transfer strategies (Belderbos and

Heijltjes, 2005; Belderbos, Ito and Wakasugi, 2008; Zhou and Guillén, 2015; Zhou and Guillen, 2016; Souza and Ogasavara, 2018). High levels of local adaptation in terms of accumulated local experience and dynamic learning abilities is also proven to have a positive impact on JBG performance (Somlev and Hoshino, 2005; Chan, Isobe and Makino, 2008; Kostova, Roth and Dacin, 2008; Souza and Ogasavara, 2018).

Looking at institutional adaptation and JBG subsidiary performance from an expansion strategy point of view, high local adapters with the objective to expand by seeking out markets, assets and resources perform far better than their low adapter counterpart JBG. Low adapter JBG tend to follow their JBG network suppliers and/or distributors overseas and replicate existing home-country network relations in the host country (Belderbos and Heijltjes, 2005; Delios and Beamish, 2005; Iwasaki, 2015; Maki and Sekiguchi, 2016). Chan et al. (2008) found a more nuanced evidence; according to the authors, JBG affiliates that were established with the objective to gain access to knowledge and technology performed unpredictably in their host environments, with a great degree of variation. JBG's isolation from the host country, as evidenced in high intensity expatriate staffing is proven to influence JBG performance negatively (Ogasavara and Hoshino, 2005) and results in high staff/management turnover and a difficulty in attracting talent (Belderbos and Heijltjes, 2005; Ogasavara and Hoshino, 2005; Pudelko and Tenzer, 2013; Iwasaki, 2015; Maki and Sekiguchi, 2016).

Studies also focus on how the host countries' level of institutional development influences JBG. Chan et al. (2008) define institutional development as the "extent to which the economic, political, and social institutions in a host country are developed and are favorable for foreign affiliates". Counterintuitively for some perhaps, a host country' level of institutional development has a negative curvilinear effect on JBG overseas affiliate performance. In institutionally underdeveloped countries, market opportunities and early mover advantages may override high coordination costs (Delios and Beamish, 2005; Chan, Isobe and Makino, 2008; Isobe, Makino and Montgomery, 2000). Location, i.e. physical proximity between the home and host countries, has strong predictive power for JBG's choice of a host country (Chan et al., 2008; Somlev and Hoshino, 2005). Host countries with low labor costs will attract JBG, that seek operational efficiency of labor-intensive production phases (Somlev and Hoshino, 2005). However, JBG seeking low labor pools tend to be following their JBG network buyers and suppliers, and tend to isolate themselves from host country institutions by replicating existing home country relationships (Iwasa and Odagiri, 2004; Delios and Beamish, 2005; Iwasaki, 2015). Advanced and proprietary knowledge pools of the host country will attract JBG that hope to acquire new knowledge (Iwasa and Odagiri, 2004; Iwasaki, 2015).

*2.3.3. Structural contingency perspective*

Paragraph 2.3.2. "Institutional perspective" summarized research that focused on JBG' adaptation capabilities to host country environment and host country institutions' attractiveness in attracting JBG. To further the understanding of context, this paragraph explores how firm specific advantages will help promote/hinder the internationalization of the firm. In order for the firm to succeed in a new environment, the firm will have to address internal organizational constraints: realign its administrative legacy, develop dynamic learning capabilities to absorb, disseminate and utilize knowledge (Calori, Baden-Fuller and Hunt, 2000; Somlev and Hoshino, 2005; Dokko, Kane and Tortoriello, 2014), increase socialization across geographies in order to penetrate knowledge and standardize processes (Nonaka and Peltokorpi, 2006; Collinson and Rugman, 2008; Takada, 2012; Iwasaki, 2015; Choi et al., 2015; Yamazaki, 2015, 2016; Akutsu and Katsumura, 2016; Maki and Sekiguchi, 2016; Matsuda, 2018a). Equally important are the external organizational constraints, i.e. disconnection from the existing knowledge base - network, in order to be compatible with new environments (Rugman and Verbeke, 2003; Dunning, Fujita and Yakova, 2007; Collinson and Rugman, 2008). In light of JBG's embeddedness in time proven, tight-knit networks, decoupling the JBG from its extant network proves to be a daunting task (Uzzi, 1996, 1997; Yamagishi, 1998; Hitt, Lee and Yucel, 2002; Collinson and Wilson, 2006; Dujarric and Hagiu, 2009; Hémous and Olsen, 2018). The difficulty to disconnect stems, among others, from JBG being bound by servicing "incremental innovation needs of existing customers", which is linked directly to network partner specific expertise, investing in partner specific fixed assets as well as technical and relationship management capabilities. This, in turn, will disable the JBG from adapting to new institutional environments or meeting the innovation needs of new customers (Belderbos and Heijltjes, 2005; Collinson and Wilson, 2006; Collinson and Rugman, 2008; Dujarric and Hagiu, 2009; Kushida, 2011).

*2.3.4. Control and coordination perspective*

As mentioned in the previous paragraph, the firm needs to address internal organizational constraints in order to succeed in a new environment: realign administrative heritage, and increase socialization across geographies in order to penetrate knowledge (Calori, Baden-Fuller and Hunt, 2000; Nonaka and Peltokorpi, 2006; Collinson and Rugman, 2008; Takada, 2012; Iwasaki, 2015; Choi et al., 2015; Yamazaki, 2015, 2016; Akutsu and Katsumura, 2016; Maki and Sekiguchi, 2016; Matsuda, 2018b). To increase socialization and penetrate knowledge throughout the organization, regardless where these knowledge pools originate, firms must manage their human capital effectively (Tarique and Schuler, 2010). A control point of view complements the above coordination perspective, whereby effective management of human capital enables the headquarters to implement global/regional strategies by controlling the activities of foreign affiliates (Pudelko and Tenzer, 2013; Tarique and Schuler, 2010). Staffing key management positions in the affiliates, the choice between appointing home country or host country nationals, has great implications on control mechanisms and knowledge creation – organizational learning.

Unlike North American and European corporations, JBG tend to control overseas affiliates via implicit norms rather than explicit rules by staffing key positions with HQ personnel. HQ expatriate personnel is tasked with promoting knowledge exchange and with penetrating corporate culture. On the other hand, intensive expatriate staffing has an adverse effect on retention due to the perception of a glass ceiling (Iwasaki, 2015; Pudelko and Tenzer, 2013), and ultimately lowers affiliates' performance (Ogasavara and Hoshino, 2005). JBG headquarters' strategic dependence on a foreign affiliate will increase the likelihood of appointing home country nationals. Abundant organizational experience in the local geography increases the probability of host country nationals' appointment. Having said that, JBG's inter-firm ties may also forward alternative staffing choices to those enumerated above (Belderbos and Heijltjes, 2005). Both scholars and JBG tend to agree in the need to invest in global human capital management systems. A 2015 study by the Japan Business Federation (Japan Business Federation, 2015), surveying 463 companies on progress on internationalization reveals some intriguing aspects. More than 60% of respondents feel that their human resources lag behind their overseas expansion needs. More than half of the respondents cite a lack of global expertise in their management ranks. Over 45% find sourcing and retaining management talent for overseas operations difficult. Over 30% cite headquarters' detachment from local realities, somewhat under 30% will see the hurdle in effectively penetrating corporate vision in their overseas operations (Nonaka and Peltokorpi, 2006; Takada, 2012; Iwasaki, 2015; Akutsu and Katsumura, 2016). Scholars point to a substantial divide between the HR management of JBG front-runners in internationalization and all other JBG (Iwasaki, 2015; Choi et al., 2015; Maki and Sekiguchi, 2016). Front runners in internationalization tend to be large JBG with an interest in serving diverse customer needs in multiple markets; while JBG lagging behind in internationalization are strongly bound to their network suppliers/distributors, have "fundamental competitive weaknesses and/or an absence of locally applicable firm specific advantages" (Delios and Beamish, 2005; Collinson and Rugman, 2008; Iwasaki, 2015; Choi et al., 2015). Internationalization has been most effective in JBG, where headquarters' human capital management transformation was carried out in a coordinated manner with their overseas affiliates (Maki and Sekiguchi, 2016; Matsuda, 2018a).

To combat internalization challenges, JBG follow the methods below, in order of priority: 1) improve international skills of HQ employees; 70% of respondents 2) raise effectiveness of on the job training; 40% of respondents 3) send young hires to train overseas; 40% 4) hire non-Japanese; 20%. This order of prioritization of answers to internationalization challenges implies the continuity of inward-looking, in-group favoritist tendencies (Tajfel, 1982; McPherson, Smith-lovin and Cook, 2001; Gulati and Sytch 2007; Kleinbaum, Stuart and Tushman, 2011).

*2.4. Drivers and inhibitors of JBG internationalization*

This paragraph summarizes drivers and inhibitors of JBG internationalization and information is reorganized in a dynamic framework below, that accounts for the interaction of internal and external contingency elements of internationalization. This framework also links these contingency elements to competitive strategies and change agents. As to organizational behavioral logic for change, the punctuated equilibrium model (PEM) is applied (Pauwels, 2004).

**Table 1.** External and internal drivers of JBG internalization, competitive strategies adequate to environmental factors and strategies applied by JBG

| | External factors | Internal factors |
|---|---|---|
| Drivers of JBG internationalization | • Financial deregulation of Japan<br>• Liberalization of Japan's labor and consumer markets<br>• Availability of external labor and knowledge pools<br>• Aging and shrinking domestic population | • Regionally/globally competitive firm specific advantages (FSA)<br>• Inadequate domestically competitive FSA<br>• Geographic expansion of JBG suppliers, distributors and/or customers<br>• Lack of resources |
| Competitive strategy adequate to environmental factors | Exploration (competition) | 1. Exploration (competition)<br>2. Exploitation (cooperation) |
| Competitive strategy applied to environmental factors by JBG | 1. Exploitation (cooperation)<br>2. Exploration (competition) | Exploitation (cooperation) |

The external drivers of JBG internationalization can be traced to macroeconomic and societal factors. Namely, the Plaza Accord of 1985 and the ensuing financial liberalization (Weinstein and Yafeh, 1998) and consecutive liberation of the domestic labor and consumer markets in the 1990s. A rapidly aging and shrinking population has affected the market negatively, as did the decreasing-stagnating expendable income, brought about by the Long Stagnation lasting since the burst of the bubble economy in the early 1990s (Tsuneki and Matsunaka, 2011; Iwasaki, 2015; Maki and Sekiguchi, 2016). Availability of external (overseas) high spec knowledge and low cost labor pools provide additional incentives for JBG to internationalize (Belderbos and Heijltjes, 2005; Delios and Beamish, 2005; Chan, Isobe and Makino, 2008; Isobe, Makino and Montgomery, 2000).

The internal internationalization drivers are grouped according to structural contingency, resource and keiretsu perspectives. As to structural contingency, internationalizing JBG show an interesting duality. They either possess globally and/or regionally competitive firm specific advantages (FSA) or lack FSA adequate on the domestic market (Delios and Beamish, 2005; Dunning, Fujita and Yakova, 2007; Collinson and Rugman, 2008). According to resource theory, JBG will be resource, strategic asset and/or market seekers (Delios and Beamish, 2005; Dunning et al., 2007; Iwasa and Odagiri, 2004; Todo and Shimizutani, 2010). As JBG replicate their existing supplier – distributor relationships overseas, firms also decide to internationalize to follow their keiretsu partners - buyers and/or distributors (Belderbos and Heijltjes, 2005; Ogasavara and Hoshino, 2005; Chan, Isobe and Makino, 2008; Collinson and Rugman, 2008; Iwasaki, 2015).

As for appropriate competitive strategies, a shrinking and liberalizing market alongside diverse external resource pools and attractive markets call for an adoption of exploration strategies (Granovetter, 1973; Zaheer, 1995; Podolny and Page, 1998; Borgatti and Foster, 2003; Borgatti and Halgin, 2011; Podolny, 2012; Sytch, Tatarynowicz and Gulati, 2012). Namely, these factors favor competition, dynamic knowledge management systems and flexibility to disruptive shocks. At the same time, JBG have relied on cooperation of tight-knit and closed networks whereby competitive advantage has been achieved by protecting and levering internal knowledge pools. While advances have been observed in multiple instances, the majority of JBG seem to be locked in the traditional JBG organizational structure and are leveraging strength by cooperation/exploitational strategies (Collinson and Rugman, 2008; Iwasaki, 2015; Maki and Sekiguchi, 2016).

**Table 2.** External and internal inhibitors of JBG internalization and change agents

| | External factors | Internal factors |
|---|---|---|
| Inhibitors to JBG internationalization | • Institutional distance<br>• Agile and savvy competitors | Embeddedness, collectivism<br>• Dominant logic<br>• Administrative heritage<br>• Group specific FSA, assets, capabilities<br>• Home region orientation<br>• Isolation |
| Change agent | Exploration (competition) | Decouple from embedded and collectivist heritage |
| Change theory | Punctuated Equilibrium Model (PEM) (Pauwels, 2004) | |

JBG's external inhibitors to internationalization are grouped into institutional and behavioral and market factors. Institutional inhibitors are institutional distance to/isolation from host countries and regions (see paragraph 2.3.2. "Institutional perspective", above). Behavioral factors are JBG's difficulty to overcome psychic distance, as evidenced in communications, attitudes and beliefs (Iwasaki, 2015; Maki and Sekiguchi, 2016; Matsuda, 2018b). These same external inhibitors are, at the same time, internal, as they stem, in large part, from JBG's embeddedness in existing networks and collectivist psyche. These above inhibitors are augmented by the pervasive power of traditional dominant logic, cohesion of existing ties: enduring obligations and responsibilities; and a reliance on the security of tight-knit, time proven relationships. As for market factors, agile and savvy competitors have proven to identify and meet market needs faster (Yamagishi, 1998; McPherson, Smith-lovin and Cook, 2001; Iwasaki, 2015; Akutsu and Katsumura, 2016; Maki and Sekiguchi, 2016; Matsuda, 2018b).

The appropriate change agent to overcome above inhibitors will be the decoupling JBG from its dominant and administrative heritage, which will, in turn, help to reconfigure the JBG organization to leverage its heritage better, while at the same time effectively adapting to needs of exploration. Overcoming these inhibitors is an arduous undertaking, as the firm will prefer to maintain the status quo to alternatives, that "represent a change in the dominant logic" (Pauwels, 2004). The firm also possesses the ability to "seek out new developmental ways" a.k.a. homeorhesis. Homeorhesis constitutes brief and high energy momentums, during which organizations "fundamentally reshape their competencies". Having said that, the longer time the firm spent in a state of equilibrium facilitated by continuous incremental adaptations, the less will be the incentive to change and the higher the boundaries to overcome.

## 3. Contribution to literature, conclusions, managerial implications

Studies on the internationalization of JBG have mainly focused on specific behaviors e.g. mode of market entry, knowledge creation, knowledge flows between headquarters and overseas subsidiaries, overseas market development and sales strategies, to name a few. Little attention has been paid, however, to explaining the reasons behind these behaviors. This literature review aims to contribute to the extant body of literature by recognizing the internationalization's embeddedness in the country's institutional environment, thus providing a more nuanced understanding of the drivers behind these behaviors as well as the intrinsic obstacles that may hinder the outcomes of these internationalization efforts.

This study also hopes to answer the theoretical question called for by (Zaheer, Gözübüyük and Milanov, 2010) in their excellent work "It's the connections: The network perspective in interorganizational research: "How do organizations balance the benefits of trust and embeddedness with the costs of lock-in and inflexibility with the same set of partners?"

The enduring tight-knit relationships of mutual commitments and obligations, the seamless and dynamic adaptation over centuries to the (home) institutional environment gave JBG their competitive advantage. Home advantages translate poorly, however, into regional and/or global advantages. In addition, these very JBG strengths may now inhibit growth after having reached a critical threshold and may make JBG vulnerable to external shocks. JBG has struggled to adapt to a new competitive environment characterized by domestic market liberalization and deregulation of the financial system. The period of long stagnation since the 1990s has continued to this day. The centuries' long state of dynamic equilibrium facilitated by continuous incremental adaptations poses further formidable challenges to change and increases the boundaries to overcome. It will be exciting to watch the evolution of Japanese business groups; how are they going to balance conservation and transformation?

Understanding the outcomes of JBG internationalization and the reasons behind them has wide ranging managerial implications in terms of intra-organizational dialogue, stakeholder management, organizational knowledge management, among others. In this literature review I hope to provide an additional analytical tool for scholars of business administration, managers and management consultants.

## 4. Limitations, call for further research

The behavior of JBG in times of transformation is under-researched and documented. For a context-rich analysis and understanding, more research, particularly longitudinal-qualitative studies are needed. Would like to build on Zaheer, Gözübüyük and Milanov's (2010) research question "How do organizations balance the benefits of trust and embeddedness with the costs of lock-in and inflexibility with the same set of partners?". How do JBG leverage the benefits of embedded heritage while at the same building flexible, competitive capabilities?

Japanese scholars are in a beneficial position to conduct this research, due, among others, to environment specificity and access to JBG. Little of their research is published, however, either in English or on easy-to-access international academic platforms. For this reason, this vast body of research is mostly beyond reach to non-Japanese scholars.

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