

JAPANESE MULTINATIONALS IN AUSTRALIA IN THE 1990s: MANUFACTURING, FINANCIAL SERVICES AND TOURISM *

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INTRODUCTION

Japan has been Australia's largest export market since the late 1960s and Australia's second largest source of imports since the 1970s. [Drysdale, 1992] But only in the last decade have Japanese multinational enterprises (MNEs) become significant investors in the Australian economy. During the 1980's the share of Japanese MNEs in the flow of new direct investment has risen from about 20 percent to nearly 30 percent of Australia's total inflow. From a 1990/91 peak, Japanese investment in Australia fell until 1995, reflecting the decline in total outward Japanese FDI during the recession. But Japan remains Australia's third largest foreign investor measured by the stock levels of foreign direct investment (FDI) and in the top three of Australia's largest foreign investors measured by the flow of FDI. In fiscal 1995 Japanese FDI rose 108 percent, reaching pre-1991 levels. Australia is also important to Japan, ranking as Japan's fourth largest single investment location.

Japanese FDI has been concentrated in agriculture, mining, transport equipment and finance, with a recent burst of investment in tourism and real estate (see Table 1). Japanese MNEs are under-represented in manufacturing, with only 8.5 percent of total Japanese FDI in manufacturing with 41 percent of that in transport equipment. Recently, FDI data indicate a renewed interest in manufacturing by Japanese investors.

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Table 1 : The Sectoral Distribution of Japanese and All Foreign Direct Investment in Australia as at June 1991

Sector	Japan US \$ m	Total Foreign US \$ m	Japanese Share %
Agriculture	np	1,134	52.6 ^a
Mining	1,649	9,980	16.5
Total Manufacturing	1,901	22,256	8.5
Transport equipment	672	1,641	41.0
Wholesale and Retail	1,465	11,766	12.5
Finance	3,268	12,450	26.2
Total	12,397	76,421	16.2

Note: ^a This is the 1989 share as the 1991 figure for Agriculture was unavailable at the time.

Source: Drysdale [1992].

In fiscal 1995, over 40 percent of Japanese investment went to manufacturing, with about 25 percent in real estate, resulting in a much more balanced distribution of investment. However, the stock of Japanese investment remains skewed away from manufacturing, with a concentration on real estate, mining and services which has raised questions about the motivation and reasons for Japanese investment in Australia. This paper addresses the motivation for Japanese FDI in Australia, the control mechanisms used by Japanese parents to control Australian subsidiaries, the supply relationship between Japanese subsidiaries and local suppliers and the transfer of Japanese human resource management (HRM) policies to Australia.

THE SAMPLE

There are no comprehensive listings of Japanese MNEs in Australia. Our sample was primarily drawn from *A Directory of Japanese Business Activity in Australia-1992* prepared by the Australia-Japan Economic Institute. This list was supplemented by additional information from the Japanese Chamber of Commerce and Industry in Melbourne and Sydney, the Japanese Society of Melbourne and a private listing of Japanese firms lodged in the Australia-Japan Research Center, ANU. *A Directory of Japanese Business Activity in Australia-1992* was utilised because we required the address, e-mail and name of the managing director or chairperson of each Japanese company.

In Table 2, a population of Japanese MNEs in Australia is estimated, using the

Table 2: Sample Size

Industry Sector	Population Estimate ¹		Survey Mailing List Estimate ²		Respondents	
	Firms	Employees	Firms	Employees	Firms	Employees
Manufacturing	69	31,500	53	26,200	20	10,187
Financial services	68	1,500	33	1,200	26	883
Tourism	54	10,500	35	9,800	15	4,457
Trading companies	20	1,200	13	700	8	564

Sources ; ¹ Tokyo Keizai Shinpōsha Ltd [1993] *Japanese Overseas Investment*, 1992-93 [Annual] Oriental Economist, Tokyo, Japan.

² Australia-Japan Economic Institute [1992] *A Directory of Japanese Business Activity in Australia* 1992, Sydney.

above information and the annual report on *Japanese Overseas Investment*. *Japanese Overseas Investment* was not accurate, with firms listed as manufacturing which only had sales offices in Australia. It was also difficult to disaggregate manufacturing firms from service and agricultural firms. We corrected for many of these errors. In addition, several of the smallest firms in *Japanese Overseas Investment* were no longer operating in Australia or could not be located.

The characteristics of the sample population of firms which we surveyed is given in Table 2, along with the characteristics of the respondents. Generally, Table 2 suggests that our survey mailing list is broadly representative of the population estimate, although large firms in financial services and tourism may be overrepresented. In financial services and tourism we have 49 percent and 65 percent of the population firms in our mailing list and 80 percent and 93 percent of the employees. Our respondent firms are broadly representative of the survey firms, although we had responses from 62 percent of the General Trading Companies but 80 percent of the employees in this sector. The survey provides the most comprehensive source of data on Japanese MNEs in Australia.

Table 3 gives the ASIC breakdown for our sample of manufacturing firms. Compared with Kreinin's [1989] sample of manufacturing firms which was concentrated in auto makers and part suppliers, our sample is widely distributed across manufacturing sectors and representative of Japanese FDI in Australia. For financial services, the 26 firms ranged across four broad categories of licensed banks, money market corporations, insurance, and a diverse group of general financiers. The three licensed banks that concentrated on wholesale banking services, dominated the rest of the firms in financial services in terms of employee size and paid up capital. The five insurance companies, whose business was largely directed towards investing in equities, bonds and property,

Table 3 : ASIC Classifications for Manufacturing Firms

ASIC Classification	ASIC Code	Sample ¹	Kreinin
Meat products	211	2	
Milk products	212	1	
Other chemical products	276	1	
Non-ferrous metals-basic	296	2	
Motor vehicles and parts	323	5	10
Boats	324	1	
Appliances and electrical equipment	335	4	6
Rubber products	346	1	
Plastic products	347	2	
Motor vehicle dealers	486	1	
Other business services	638	1	4

Note : ¹ Sample 20, total responses 21.

Sources : University of Melbourne / University of NSW Survey [1994] ; Kreinin, [1989].

were the next highly capitalised, but operated with very small staff. The money market corporations covered the full gamut of merchant banking and there was as a remaining group that included a diverse set of activities including equipment leasing.

The fifteen firms engaged in tourism were either tourist resort / hotel operators or travel agents. The firms varied considerably in size as measured by the number of employees : three had only a handful of employees, one had 18, seven had between 75-250 employees, two had between 550-850, one had about 2000 employees. Average employment was 328. The sorts of tourism services provided by the firms included, accommodation, airport welcomes and reconnaissance, transfers to and from airports, and the provision of tourist coaches, tour leaders, interpreters and guides.

STAGED INVOLVEMENT

Japanese financial service and manufacturing firms have had a long history of involvement in the Australian economy. Australia was one of the first destinations for Japanese manufacturing MNEs and almost half of all Japanese MNEs in our sample invested before 1980. Japanese FDI in financial services and tourism is more recent than Japanese FDI in manufacturing, with only 3 of the 26 financial service firms in our survey investing in Australia before 1978. But 70 percent of the financial service firms had pre-FDI involvement in Australia through representative offices or joint ventures or both. Seventeen of the 20 manufacturing MNEs had previous export involvement via

General Trading Companies, Australian agents and representative offices. Pre-1980 and post-1980 manufacturing investors had similar levels of pre-FDI involvement through export agents. These multiple modes of pre-FDI involvement are typical of the stage pattern of MNE involvement in host countries by British and American firms and by recent Japanese MNEs in US. [Drake and Caves, 1992]

THEORY OF THE MNE

This incremental commitment to a foreign market is consistent with the theory of the MNE. The MNE is a firm which operates in two or more countries under a clear decision-making system linked by ownership or other form of control with the sharing of knowledge and resources which allows coherent and common policies and strategies. FDI by international firms involves two simultaneous and interdependent decisions: the choice of location for an overseas investment and the choice of the multinational form.

The location decision requires that it is more profitable to combine the firm's ownership advantages with factor inputs in a selected location than with factor inputs in some other location. Locational factors include production costs (wage rates / labour costs; energy costs; input and component availability and price; tax rates), transfer costs (tariffs and non-tariff restrictions; transport costs), financial assistance from Federal and State governments, market size and growth potential and political stability.

Simultaneous with the location decision, MNEs determine the form of overseas involvement. When the MNE form is selected, the entry mode can be greenfield investments, merger, takeovers and acquisitions or joint ventures arrangements. In manufacturing, 40 percent of all Japanese FDI was greenfield investment, 35 percent takeovers and mergers and only 20 percent joint ventures. Financial firms (83 percent) and tourist firms (83 percent) opted overwhelmingly for greenfield investments in Australia.

Firms select the MNE form in order to internalise transactions which occur in imperfect intermediate product markets for the purchase of raw materials and components and imperfect markets for the sale of firm-specific know-how. Intermediate product markets are subject to uncertainty and asymmetric information which allows sellers, who have better and different information than buyers, to act opportunistically in supplying inputs. It is costly to write spot market contracts to monitor, bond and enforce input purchases. Firms are vulnerable to post-contract opportunistic 'hold-up' by input suppliers when the firm has invested in specialised physical and human capital

assets dependent on the inputs and when transactions are frequent. Given the high costs of arm's-length market contracting, firms select alternative arrangements for securing inputs, including agents, franchises, licenses, strategic alliances, long-term contracts and FDI. This has been the pattern of Japanese MNE activity in Australia.

Arm's length markets also fail to secure the full value through market sale of the firm's intangible assets, including product and process technology, work and managerial practices, advertising, marketing and distribution skills and brand name and parent reputation advantages. The problem arises from the public good characteristics of intangible assets, when their use in several different applications and locations does not diminish their value in their original use or location. [Caves, 1982] In contrast to physical capital, know-how related to process and product technology, marketing and distributing, brand names and trademarks, reputation for quality, managerial expertise and work practice techniques are difficult to patent, making the protection of property rights over these assets problematical. [Hymer, 1976 ; Dunning, 1977 ; Buckley and Casson, 1976 ; Casson, 1979 ; Hennart, 1982] Due to uncertainty and asymmetric information between buyer and seller, market sale fails to correctly value and appropriate the full returns from the firm's intangible assets. Firms 'go international' to exploit these firm-specific intangible assets internationally whether through agents, licensing, franchising, strategic alliances or FDI.

There is growing evidence that firm-specific intangible assets gained through operating a multiplant and national system of production and distribution provided important 'governance' advantages to MNEs. The FDI research focus has shifted from product and process technologies which lead firms to make their initial FDI to the advantages gained from operating a global enterprise which allow MNEs to reinvest in existing markets or make subsequent investments in new overseas countries. [Kogut, 1990, 1994 ; Nicholas, 1989] Japanese firms investing in Australia since 1980 have a long history of coordinating the flow of product, process, management and labour practices, know-how and information across a network of subsidiaries in Asia, Europe and the US. Such governance advantages, including favoured access to parent technology and factor inputs, dynamic entrepreneurship and product diversification expertise, facilitate investment in new countries.

FDI occurs as the mode for intra-firm transfers of intangible assets only when it is economical for the MNE to exploit their intangible assets internally rather than relying on intermediate contractual arrangements such as agents, licenses, franchises and strategic alliances. Transfers of ownership advantages through intermediate contracts

are not costless, incurring the costs of writing, bonding, monitoring and enforcing an incentive contract concerning the use of the firm's know-how. These incentive contracts are between the firm (principal) and its overseas licensee (agent); the firm (principal) and its overseas franchisee (agent); and the firm (principal) and its partners in a strategic alliance (agent). Incentive contracts are written to reduce shirking and opportunism by agents (licensees, franchisees and alliance partners). Shirking refers to the amount of energy agents put into task completion, which occurs when the agent provides a substandard service or product. Licensees and franchisees who shirk depreciate the principal's reputation and brand name. Agents behave opportunistically, when they use their superior information, for example knowledge of local market conditions, in their own self-interest rather than in the interest of the principal. It is costly for the principal to monitor shirking and opportunism. MNEs exist when intrafirm transfers of ownership advantages are more efficient than intermediate contracts such as licenses, franchises and strategic alliances.

MNEs are frequently superior to intermediate arrangements for transferring know-how internationally when the intangible assets are knowledge based, concentrated in teams of skilled workers and involve work practices, advertising and network coordination. Intangible asset transfers within MNEs are costly, requiring complex incentive contracts between the parent and its overseas managers and workers which are monitored by sophisticated administrative structures, accounting systems and reporting devices. [Teece, 1977; Carlos and Nicholas, 1990; 1993] Compared to agencies, franchises, licenses and strategic alliances, the internal organisation of MNEs provides superior mechanisms for managerial control and dispute resolution between foreign subsidiaries and the parent. The MNE form transforms the firm's intangible assets into ownership advantages, providing the competitive edge over domestic and international rivals.

The agency framework which focuses on the costs of alternative forms of international involvement, also explains the relationship between the Japanese MNE and its Japanese parent, the Japanese MNE and its Australian suppliers, and the Japanese MNE and its workers. Parents monitor and supervise their subsidiaries to control for shirking and opportunistic behaviour by their overseas managers, who have better and different information than managers in Japan. Similarly, Japanese MNEs enter into both spot market and long-term input contracts (including subcontracting) with Australian firms, depending on the relative costs of these two contractual relationships. Potential opportunistic behaviour by suppliers due to adverse selection and moral hazard problems

lead Japanese MNEs to structure incentive contracts with suppliers which bond, monitor and enforce behaviour which aligns the goals of the subsidiary and the suppliers. In Japan, the subcontracting system is an intermediate form of contracting which aligns supplier-core firm goals and attenuates opportunism. We investigate to what extent these subcontracting relationships are transferred to Australia. Finally, agency problems between the firm's managers and its workers require human resource management (HRM) policies which ensure nonopportunistic and nonshirking behaviour by workers. Japan's unique HRM system of work groups and incentive pay attenuates worker opportunism, and the transfer of these Japanese HRM practices is studied below.

STRATEGIC INTERACTION

Besides ownership advantages and location factors, MNEs invest overseas in response to rivals. There is now a substantial literature on inter-MNE competition with MNEs 'following' rivals or pre-empting rivals through FDI. In an oligopolistic-reaction model, Knickerbocker [1973] constructed entry concentration indexes which measured the bunching of FDI in a particular country and Graham [1974] found that MNEs confronted by a rival in their home country responded by making a FDI in the challenger's country. Strategic interaction and follow-the-leader factors for Japanese MNEs investing in Australia are analysed.

OWNERSHIP ADVANTAGES OF JAPANESE MNES

In Table 4 the motives for Japanese MNEs investing in Australia are given. Respondents were asked to score their motives on a scale of 1 (no importance) to 4 (high importance), with a score over 3.3 being a significant factor in the sense that on average firms rated the factor medium-high importance. Manufacturing firms came to supply the Australian market (3.9). Japanese manufacturing MNEs did not invest in Australia to supply other Japanese firms, which has been a common motivation for Japanese MNEs in the US and Europe. Financial service firms came to service their parent's Japanese clients (3.6) or other Japanese firms in Australia (3.4) and to complete a global network (3.8) while Japanese tourist firms invested to supply the Japanese tourist market (3.7) and to establish a market presence (3.5). The standard errors reported in Table 4 show that for scores greater than 3.3 (and for scores below 1.5) the value of the responses were not spread out, indicating that the responses were

Table 4 : Motives for Japanese FDI.

(Standard errors in brackets)

Motivation	Manufacturing	Financial Services	Tourism
To establish a market presence	———	3.3 (0.9)	3.5 (0.8)
To supply Australian market	3.9 (0.5)	———	———
Supply other countries	2.7 (1.1)	———	———
Promote exports from parent to Australia	2.3 (1.2)	———	———
To supply Japanese market	2.0 (1.1)	———	———
To supply other Japanese companies in Australia	1.3 (0.5)	———	———
To supply Japanese tourist market	———	———	3.7 (0.5)
Service parent's Japanese client companies in Australia	———	3.6 (0.7)	———
Service Japanese customers of business group in Australia	———	3.4 (0.9)	———
Service other Japanese companies in Australia	———	3.1 (0.8)	———

Note: The scores are calculated by assigning 1 to no importance, 2 to low importance, 3 to medium importance, and 4 to high importance. The standard errors show dispersion of the responses.

Dashed cells represent question not asked.

similar.

The ownership advantages which allowed Japanese MNEs to overcome the disadvantages of competing in a foreign market against Australian domestic corporations and other MNEs are investigated in Table 5. Again the standard errors for high average scores suggest that the variances are quite concentrated with the responses similar across ownership advantages and also across industries. Our sample of manufacturing firms identified product quality (3.7) as their most significant advantage, with product price (3.2), after sale service (3.4), parent's reputation (3.3) and maintaining product delivery dates (3.3) ranking as the next most important ownership advantages. These advantages were linked to production advantages, especially in-house quality control (3.7) and quality of inputs (3.3), to create a strong product-production quality advantage. Advertising and marketing (2.9) scored poorly as intangible assets, although parent's reputation (3.3) was scored of medium-high importance. These findings are broadly in line with the results of Dunning's [1986] study on Japanese manufacturing investment in the UK where product quality, price and reliability, keeping delivery dates and after sale service scored highest in the product advantage category and process technology and quality of inputs ranked high in the production advantage

category.

Governance advantages scored low in Table 5, with manufacturing MNEs in Australia claiming little competitive advantage from being part of worldwide operations (2.9) or from having favoured access to parent's inputs (2.4), technology (2.9) and product diversification know-how (2.6). This is surprising since Kume and Totsuka [1993, p.29] found that governance advantages were a significant advantage in laying the basis for the strategy of Japanese globalisation in the 1980s. In our sample, nearly half of all FDI by Japanese manufacturing firms occurred before 1980, and overwhelmingly these pre-1980 investors scored the importance of global network advantages (2.4) low. In contrast, the post-1980 investors scored the global network advantage 3.4, making it an important ownership advantage for Japanese firms investing in Australia.¹¹

For Japanese financial service firms a slightly different pattern arose than for manufacturing MNEs. Governance factors, completing the global network (3.8), relationships within the company group (3.3) and relationship with the parent's Japanese clients (3.8), knowledge of customer needs (3.6) and part of world-wide operation (3.5) scored highly in Table 5 (with low values for the variances). Also important in the financial sector were the parent's reputation (3.6) and speed and quality of service (3.6), providing the main product advantages to financial firms. The governance variables, especially ties with parent's clients, also operated as important intangible assets for Japanese financial firms investing in the US and Europe. Unlike Japanese financial MNEs investing in Europe, our sample firms did not invest in Australia to gain access to information on the operating of international financial markets.

There were two major competitive advantages for tourist MNEs (see Table 5). First, there was know-how related to tourist requirements, measured by knowledge of Japanese tourists' preferences and tastes (3.6), Japanese language (3.8) and employment of Japanese trained staff (3.7). Second, there were synergies in packaging and marketing a range of special quality tourist products and services, measured by the speed and quality (3.4) and range of products and services (3.5) and advertising and marketing methods (3.4).

Japan's corporate organisation provides potential ownership advantages, since there is evidence that Japanese MNEs transfer some aspects of their work organisation and

1) Dunning's (1986, p.39) governance advantages for Japanese firms investing in the UK also scored poorly, with access to parent's administrative services scoring 2.2 which is broadly comparable with our global network advantage. Dunning's study dealt mainly with pre-1980 Japanese investors before governance ownership advantages became important.

Table 5 : Average Score of the Competitive Ownership Advantage of Japanese MNEs. (Standard errors in brackets)

Motivation	Manufacturing	Financial Services	Tourism
Product quality	3.7 (0.8)	————	————
In-house quality control	3.7 (0.8)	————	————
After sale service	3.4 (0.8)	————	————
Keeping delivery dates	3.3 (0.8)	————	————
Quality of inputs	3.3 (0.9)	————	————
Process technology	3.3 (1.0)	————	————
Parent's reputation	3.3 (1.0)	3.6 (0.6)	3.4 (0.8)
Product price	3.2 (1.0)	————	————
Work organisation	3.1 (0.9)	2.8 (1.0)	————
Management style	3.1 (0.9)	2.9 (0.9)	————
Industrial relations	3.2 (1.1)	2.7 (1.1)	————
Part of worldwide operations	2.9 (1.0)	3.5 (0.8)	2.7 (1.1)
Complete global network		3.8 (0.4)	
Follow competitors	2.3 (1.1)	2.8 (1.2)	1.8 (1.0)
Speed and quality of service	————	3.6 (0.6)	3.4 (0.9)
Relationships with customers	————	3.8 (0.4)	————
Relationships within company group	————	3.3 (1.0)	3.0 (0.7)
Range of products and services offered	————	3.1 (0.8)	3.5 (0.9)
Know Japanese language	————	————	3.8 (0.5)
Know Japanese tastes and preferences	————	————	3.6 (0.7)
Japanese trained staff		2.9 (0.9)	3.7 (0.5)
Relationship with other Japanese cos.	————	————	2.7 (0.7)

Note : The scores are calculated by assigning 1 to no importance, 2 to low importance, 3 to medium importance and 4 to high importance.

Dashed cells represent question not asked.

supplier relationships to host countries. These arguments are developed later in the paper, but it is clear from Table 5 that intangible assets related to quality control and delivery time were significant ownership advantages.

STRATEGIC FACTORS

Globalisation factors were important for financial service firms, but returned mixed results for manufacturing. Empirical studies of Japanese FDI [Hennart and Park, 1993 ;

Encarnation, 1987] have given support for global and strategic factors. In financial services, Japanese firms came to Australia as part of the parent's internationalisation strategy, scoring high on to complete a global network (3.8), and part of world-wide operation (3.5), in Table 5. For manufacturing MNEs, being part of worldwide operations only scored 2.9, although Japanese subsidiaries investing after 1980 scored being part of worldwide operations highest at 3.3. This suggests that Australian investment is increasingly being integrated into the parent worldwide strategies. Yet, integration is at best partial. Table 4 shows that supplying other countries (2.7), the Japanese market (2.0) or promoting exports from Australia (2.3) were only moderately important. Post-1980 Japanese MNEs were no more likely than pre-1980 investors to promote exports from Australia, either to Japan or third country markets.

Strategic factors, following competitors to Australia, was an unimportant factor in all industries, with manufacturing firms scoring 2.3, financial firms 2.8 and tourism firms 1.8. This finding is consistent with some recent research on oligopolistic rivalry in the Japanese auto industry. In a study of whether the big five Japanese auto assemblers 'follow the leader' or match their rivals foreign investments, Rose and Ito [1996] found that Nissan had a very assertive strategy, meeting its rivals in overseas markets as predicted by oligopolistic reaction theory. In contrast, Honda and Mitsubishi had a strategy of mutual avoidance, deliberately avoiding over-crowded international markets, and Mazda and Toyota met competition in overseas markets less than expected. Rose and Ito concluded that strategic FDI was not a characteristic of the Japanese auto industry.

LOCATIONAL FACTORS

In some industries there was a clear interplay between ownership advantages and locational factors—Japanese financial institutions used their competitive advantages to service their parent's clients (3.6) or companies in their group (3.4) or service other Japanese compaines in Australia (3.1) as shown in Table 3. Japanese financial MNEs followed Japanese manufacturing firms to Australia. In contrast, no Japanese manufacturer ranked as medium or high the investment motive of supplying other Japanese firms in Australia; the overall score was 1.3 in Table 4. Ninety percent of the manufacturing respondents ranked the supplying of the Australian market as high, with an overall score of 3.9 in Table 4.

The Australian experience stands in contrast with the practice of Japanese firms

which invested in Europe and the US, where many firms, particularly car parts and electronic components suppliers serviced existing Japanese MNEs. The three Japanese auto parts suppliers in our sample targeted Australian customers from the beginning. Japanese firms ranked low the supply of the Japanese market (2.0), the promotion of exports to Australia from their Japanese parents (2.2) and the supply of other countries from Australia (2.7). Japanese manufacturing firms in Australia were not part of a global manufacturing network. [See Table 4]

Table 6 presents the reasons for selecting Australia as an investment location, with the need to adapt to local customers' requirements (2.9), political stability (2.9), tariffs and import duties (2.7), local content rules (2.7), energy costs (2.7) and the potential for market growth (2.6), at best of only moderate importance. So too were wage and labour costs (2.5), input / component supply prices (2.2) and the availability of inputs (2.3) as locational factors in the FDI decision. Psychic distance—differences in culture, language and legal systems—scored about 2.5. The large standard errors reported in Table 6 suggest that there was little agreement between firms on these factors. However, Japanese firms were unanimous that financial assistance by federal (1.4) and state governments (1.2) or tax rates (1.5) did not attract overseas investment, with the low standard errors indicating a high level of uniformity among the respondents.

In US manufacturing, large and successful domestic corporations came as novice investors seeking access to technology in sectors with high R & D outlays. [Wesson, 1993; Kogut and Chang, 1991] In our sample, access to technology as a motivation for Japanese FDI scored only 2.1, reflecting Australia's dependence on overseas technology and manufacturing industry's low levels of indigenous R & D. [Hutchinson and Nicholas, 1992]

Japanese tourist firms identified a market with potential growth, which was ranked high in terms of a safe tourist location (3.9), with a warm climate (3.8), warm relaxed people (3.7), similar time zone (3.7) and fine beaches (3.5) and wide open spaces (3.6) (see Table 6). Federal and state financial incentives and tax rates had no impact on investment decision by Japanese tourist MNEs.

THE LOCUS OF DECISION-MAKING

Agency theory and transaction cost economics provides powerful insights into the nature of the control mechanisms which ensure that subsidiary behaviour serves the goals of the firms as a whole rather than those of the subsidiary's stakeholders. [Hennart, 1993]

Although the literature on head office-subsidary control in Japanese MNEs is meagre, the small number of comparative studies of multinationals' head office-subsidary relationships suggest that there are marked differences between Japanese MNEs and those from the United States and Europe in this regard. [Kobayashi, 1985; Negandhi & Welge, 1984; Dunning, 1993, pp.224-32; Rugman & Hodgetts, 1995, chp.9] These studies undertaken in the 1980s found that the locus of decision making in Japanese multinationals lay more with head office than was the case in those of other nationalities. Moreover, head office exercised its control through a combination of formal bureaucratic channels and by the posting of expatriate Japanese managers to overseas subsidiaries.

However, the subsidiaries operating in Australia displayed a number of characteristics that suggested, a priori, that parents might not need to exercise very tight controls. As other researchers have noted, the greater experience the parent has acquired in managing manufacturing or distribution activities in multiple locations within Japan, and operating in a number of countries abroad, the more likely it will be to allow greater autonomy to its overseas branches. [Negandhi & Welge, 1984, p.11] Post-1980 Japanese manufacturing, financial services, trading companies, and, to a lesser extent tourism, investors in Australia had experience as multi-location managers in Japan and other overseas countries prior to their FDI in Australia. Furthermore, the reporting relationships with the parent indicated by the survey data show that our respondents were mature international businesses, with half of the manufacturing subsidiaries reporting to their parent's product divisions as well, suggesting that they had become an integral part of corporate activities. [Yoshino, 1975, p.148]

Another indicator of the maturity of the firms in our sample is their increasing involvement in strategic decision making concerning their own futures. The initial feasibility studies were taken by head office, by an ad hoc group or by the international division and by trading companies. However, the most recent study of subsequent investment involved a far greater degree of involvement by the Australian subsidiary. While the initiative still remained with the Japanese parent, nearly a quarter of feasibility studies were undertaken by the Australian subsidiaries in financial services, more than one third in manufacturing, and 43 percent in tourism.

A parent will take a far more active role in the management of a subsidiary who is a part of the its global network, [Negandhi and Welge, 1984, p.24, Dunning, 1993, p.231] and the sample firms were not closely integrated into global production schedules. This dominant focus on the Australian domestic market might be expected

Table 6 : Average Score of Location Factors in Japanese FDI.
(Standard errors in brackets)

Location Factors	Manufacturing	Financial Services	Tourism
Financial assistance by Australian Government	1.4 (0.7)	1.4 (0.5)	1.1 (0.3)
Financial assistance from State Governments	1.2 (0.4)	1.4 (0.5)	1.1 (0.3)
Tax rates	1.5 (0.9)	1.7 (0.6)	1.7 (1.3)
Tariffs / import duties / controls	2.7 (1.4)	————	————
Local content rules	2.7 (1.5)	————	————
Overcome other export restrictions	1.7 (1.0)	————	————
Wage rates / labour costs	2.5 (0.9)	————	————
IR and productivity record	2.2 (1.2)	————	1.9 (0.7)
Legal and commercial systems	2.0 (1.0)	2.2 (1.0)	————
Cultural and social system	2.0 (1.1)	2.2 (0.8)	————
Exchange rates changes	2.5 (1.2)	1.9 (0.7)	2.3 (1.1)
Similar time zone	————	————	3.6 (0.6)
Safe place	————	————	3.9 (0.4)
Warm climate	————	————	3.8 (0.4)
Fine beaches	————	————	3.5 (0.9)
Accessible and cheap golf	————	————	3.4 (0.6)
Unique flora / fauna	————	————	3.4 (0.7)
Wide open spaces	————	————	3.6 (0.6)
Warm relaxed people	————	————	3.7 (0.5)
Affordability	————	————	3.2 (0.9)

to have allowed greater autonomy to Japanese subsidiaries in decisions concerning both production and marketing.

However, despite the previous experience in multi-locational management, and the focus on the domestic Australian market, the survey results provide overwhelming support for the contention that the locus of decision making across a whole range of issues lay with head office in Japan. This high level of centralised control manifested itself in many ways. These include ownership of the subsidiary ; the nationality of chairpersons, directors and executives, and the nationality of those on the highest decision making bodies ; the degree of parental oversight on a whole range of issues including product range, price, technology, human resource management and so on ; and the monitoring of the financial performance of the subsidiary. Each of these dimensions of control will be considered in turn.

OWNERSHIP, DIRECTORSHIP AND MANAGEMENT POSITIONS

The overwhelming choice by Japanese parents to own their Australian operations, which supports Encarnation and Mason's argument that 'ownership matters', [Mason and Encarnation, 1994] contrasts with the findings of Negandhi and Welge, [Negandhi and Welge, 1984, pp.32-36, Table 3.1] that only a third of Japanese multinationals' manufacturing subsidiaries had a majority of their equity owned by the parents in the early 1970s. Ownership levels in Australia corresponds to the level of ownership by Japanese parents in their United States manufacturing activities in the early 1980s as identified by JETRO. [JETRO 1981]

The data shown in Tables 7 and 8 indicate that the Japanese usually choose to own their Australian operations across all industry groups and hold all or majority equity.

Ownership allows direct forms of control to be exercised over the strategy and operations of the overseas investment. Firstly, it confers privileges of command, and the right of selection of those who are chosen to be instruments of command, including the appointment of directors. As Tables 9 and 10 show Japanese nationals dominated the boards of subsidiaries, holding the lion's share of the post of chairman and a majority of board places.

All of the trading company subsidiaries had Japanese nationals as chairmen, as did 13 of the 15 respondents in the tourism industry and 21 of the 24 firms in financial services. It was only in manufacturing that Australians filled half of the 20 positions of chairman. Japanese nationals dominated board appointments. For instance there were no Australian directors on the boards of more than a half of the trading companies, and Japanese directors were in a majority in 23 of the 24 financial services firms' local boards.

Australians were more liberally represented on the boards of the companies in the tourism area, but non-Japanese directors, as well as chairpersons, were common only in manufacturing. Australians occupied a majority of board places in 9 of the 20 respondent manufacturing companies (see Table 10).

In terms of senior managerial opportunities, non-Japanese held a higher proportion of posts in manufacturing and tourism than in the financial services and trading companies. In 17 of the 24 respondent finance firms, Australians held less than half of the 'senior management' positions, while there were nine firms in which no Australians held 'senior' positions. The trading companies followed suit with two of the five firms replying to this question reporting no Australian 'senior' managers and another three in which they

held less than half of the positions.

By contrast, Australians held well over half of the 'senior' positions in tourism, 8 of 15, and more than three quarters of those in manufacturing. However, even in these industries there were two firms in manufacturing and five in tourism that employed no Australians in 'senior' positions.

Expatriate managers are a scarce resource whose use will be rationed by the parent, and allocated only to those areas where it will generate the highest return. For instance, tourism requires management in many areas where Japanese nationals have no superior knowledge over domestic managers. The nature of the industry lessened the intensity of Japanese managers within firms. Not surprisingly, Japanese managers were clustered in a narrow range of senior positions, while Australians were more strongly represented at the lower levels of management across all industry groups.

The heavy reliance on expatriate managers served a two fold purpose. First, it addressed the potential agency problem in the subsidiary. [Hennart, 1993 pp.170-72] The subsidiaries' managers possess different and superior knowledge about the range of tasks they perform and the efforts made on the parent's behalf, and better information about local markets than head office. In these circumstances the agent whose behaviour results in outcomes that may be unobservable or unverifiable to third parties has the opportunity to shirk. However, the subsidiary is managed by personnel whom the parent trusts to act in its interests. And, these socialised expatriates are rotated between postings at frequent intervals to discourage their entering coalitions with stakeholders from the host countries. Furthermore, the expatriate managers post a bond of good behaviour in the form of their future careers within the organisation. Second, the expatriate managers provided a conduit for the transference and realisation of ownership advantages identified above. The realisation of these advantages, particularly if they were embedded in intangible assets such as the knowledge and experience of the parent, might be expected to lead to tight controls head office.

PARENTAL OVERSIGHT OF FUNCTION AND MONITORING OF OUTCOMES

The parent companies used a variety of devices other than the appointment of directors and senior staff to control the behaviour of their subsidiaries. Head office approval was required before action was taken in a number of areas as shown in Table 11.

A score of one indicates that the parent had no input, a score of two that the

Table 7 : Type of Company by Industry¹

Company Type	Financial Services	Manufacturing	Tourism	Trading Companies	All Industries
Subsidiary	26 ²	15	13	7	61
Joint venture	—	4	—	—	4
Total respondents	26	19	13	7	65

Notes : ¹ Number of missing observations, 4.

² Includes 1 Branch and 2 Representative Offices.

Table 8 : Percentage of Japanese Equity by Industry¹

Equity	Financial Services	Manufacturing	Tourism	Trading Companies	All Industries
0%	—	3	—	—	3
1 — 49%	—	3	1	—	4
50%	1	2	—	—	3
51 — 99%	—	3	1	—	4
100%	23	9	13	7	52
Respondents	24	20	15	7	66

Notes : ¹ Number of missing observations, 3.

Table 9 : Japanese Chairman of Board of Directors by Industry¹

Japanese Chairman	Financial Services	Manufacturing	Tourism	Trading Companies	All Industries
Yes	21	10	13	8	52
No	3	10	2	—	15
Respondents	24	20	15	8	67

Notes : ¹ Number of missing observations, 2.

parent was consulted, and a score of three that the parent gave formal approval to local decisions in the areas shown. An average score of 2.5 or more would arise if the majority of respondents sought parental approval, and an average score of 2 or more would result if a majority of respondents consulted and sought approval.

There are two principal results. First, parental controls impacted differentially across three broad areas : capital expenditures and financial flows ; production, technology, marketing and pricing ; and human resource management. In all industries, the parent exercised tight controls on strategic and resource issues via an approval process over finances, including the authorisation of new capital expenditures, the funding of those outlays, and the distribution of profits. By contrast, headquarters kept a much looser

Table 10 : Australian Proportion of Board by Industry¹

Australian % of Board	Financial Services	Manufacturing	Tourism	Trading Companies	All Industries
0%	14	3	7	3	27
1 – 49%	9	8	5	2	24
50 – 99%	1	8	3	—	12
100%	—	1	—	—	1
Respondents	24	20	15	5	64

Notes: ¹ Number of missing observations, 5.

grip on issues such as technology, production and marketing methods, and even less control over what can be described as human resource management.

Second, the survey responses indicated that manufacturing firms consulted with and sought approval from their parents less often than subsidiaries in financial services and tourism, particularly in the areas of production and marketing. Both these results raise a number of questions concerning the transfer of ownership advantages to the subsidiary by the parent.

A number of anomalies still remain. For instance, as is shown in Table 11, firms' consultation and approval behaviour was not strongest in those areas that the firms had identified previously as being the key sources of their competitive advantage in the Australian market, such as quality of product and service, itself a function of product and process technology and labour practices, and a knowledge of their customers' needs (See Table 5). By controlling the range of products offered in the Australian market, head office in Japan effectively choose the technologies to be transferred to its subsidiaries. The areas in which decision making autonomy was granted to subsidiaries were often industry specific. For example, firms in financial services, who defined themselves as being part of a global network, had very little control over their choice of product / service range, or their choice of computer systems, while those firms in tourism possessed a good deal in both.

Table 12 suggests that firms reported higher scores for following their parents in a range of operational areas than they did for seeking approval. Parental control was significantly stronger in those areas that were conduits for the transfer of ownership advantages. They were less concerned with prescribing behaviour in what were domestic operational issues and allowed the subsidiaries a good deal of autonomy in these areas. Marketing and pricing strategies clearly had to be made by people on the spot. Hiring locals and determining their duties and remuneration packages was a local

responsibility that involved consideration of domestic labour market conditions, although many subsidiaries consulted with their parents on these issues.

Questionnaire responses, as shown in Tables 11 and 12, indicated that subsidiaries frequently did not consult with or follow their parents' example on a range of issues such as the choice of computer hardware and software, work organisation, bonuses and incentives, and personnel management. Subsidiaries also differed from parents with respect to accounting systems being used. Most of these disparities would reflect the impact of local accounting standards and reporting requirements, rather than any freedom on the part of the local operation to design its own set of management information systems.

Parents were primarily concerned with monitoring outcomes rather than having an input into many of the day-to-day management processes. The goals set for subsidiaries were dominated by financial measures of performance. Local profitability was the most important criteria of performance, followed by contribution to the profit of the parent, and rate of return of investment, and cash flow to parent. Divergence of outcomes from planned results was another important indicator of performance as measures of budget variance were widely used. Other measures such as market share, productivity levels and rates of employee turnover, while important, were ranked as being of lesser importance to parent companies. In this respect, the nature of the performance indicators forming part of the control systems used by Japanese multinationals in Australia were remarkably similar to those used by large multidivisional companies in the West since early this century.

MANAGING THE SUBSIDIARY

Australian-based subsidiaries were given a fair degree of discretion in how they managed the business on a day-to-day basis. Firms were asked to respond to questions comparing their 'management practice' with that of their parents (Table 13), and to describe the 'Japaneseness' or otherwise of their company structure and decision making processes (Table 14). Each of these attributes will be dealt with in turn.

Subsidiaries differed from their parents in that most of the respondents shown in Tables 13 and 14 identified themselves as modifying Japanese management practice and operating with a Western-style pyramid shaped bureaucracy. This was particularly so in the case of manufacturing where all of the 11 respondents in Table 13 claimed to be using a Western rather than a Japanese 'model'. Similarly, only 4 of the 14 financial

services firms and two of the seven firms in the tourism industry were using what they recognised as a Japanese-style of bureaucracy. The trading companies had made the fewest concessions to change as three of the four answering this question noted that they used the Japanese rather than Western-style of bureaucracy.

The choice of a Westernized bureaucratic structure possibly overstates the difference from Japanese management practices followed in Australia insofar as a narrow majority of all firms answering this question, 25 of 43, reported that they used a Japanese-style of collectivist and consensual decision making. However, another 18 firms had opted to use radically different form of decision making style. These included five of the eight firms involved in tourism. Even the trading companies, the most 'Japanese' of the firms operating in Australia in so many respects, were evenly divided in their choice of decision making styles, while about a third of the firms in manufacturing and financial services area claimed to follow a form of top down decision making.

TRANSFER OF HUMAN RESOURCE MANAGEMENT BY JAPANESE MNEs

Interest in the Japanese HRM system has arisen because Japan's HRM system has long attracted the interest of foreign observers seeking to understand and explain Japan's economic success and because rapid expansion of Japanese foreign direct investment has focused attention on the application and transferability of the Japanese management system to overseas countries. [Abegglen, 1958, Clark, 1979, Cole, 1971, Pascale and Athos, 1981, Ouchi, 1982, Oliver and Wilkinson, 1988, Odagiri, 1992] Early writings tended to stress the cultural specificity of the Japanese management system and the impossibility of transferring Japanese labour and work practices to overseas subsidiaries. [Yoshino, 1976, Fukuda, 1988, Yasumuro, 1982] More recent research has stressed the essential rationality of Japanese labour market practices [Aoki, 1984, 1988, 1990; Odagiri, 1992] and argued in favour of the transferability of Japanese management practices, but researchers have stressed the impact of socio-cultural and environmental conditions found in the host country in determining the extent of the transfer. [White and Trevor, 1983, Fukuda, 1988, Ichimura, 1981, Dunning, 1986, Shibagaki, 1989, Sethi, Namiki and Swanson, 1984, Takamiya and Thurley, 1985, Kobayashi, 1985, Campbell and Burton, 1994] This section examines the elements of the Japanese system which have been transferred to Australia.

For the Japanese MNE, the exploitation of its ownership advantages is the driving

Table 11 : Japanese Parent 'Control' over Local Decision-Making by Industry
(Average Ranking and Standard Error)¹

Financial Services		Manufacturing		Tourism	
Decision Area	Average Ranking (SE)	Decision Area	Average Ranking (SE)	Decision Area	Average Ranking (SE)
Dividend payout	2.83 (0.10)	Dividend payout	2.35 (0.17)	Capital expenditure	2.57 (0.17)
Short/long term finance	2.70 (0.13)	Capital expenditure	2.32 (0.19)	Dividend payout	2.50 (0.19)
Capital expenditure	2.65 (0.15)	Product range	2.11 (0.21)	Short/long term finance	2.43 (0.14)
Product/service range	2.56 (0.13)			Bonuses & incentives	1.67 (0.22)
Computer hardware and software	2.08 (0.15)	Short/long term finance	2.11 (0.19)	Marketing method	1.58 (0.23)
Product/service prices	1.95 (0.18)	Sourcing Japanese inputs	2.11 (0.18)	Computer hardware and software	1.54 (0.22)
Bonuses & incentives	1.95 (0.19)	Product design	2.00 (0.20)	Product/service prices	1.50 (0.15)
Work organisation	1.88 (0.13)	R & D	1.89 (0.17)	Local personnel policies	1.43 (0.20)
Local personnel policies	1.84 (0.12)	Production technology	1.83 (0.17)	Product/service range	1.42 (0.19)
Marketing method	1.48 (0.12)	Sourcing local inputs	1.65 (0.19)	Work organisation	1.31 (0.13)
		Product pricing	1.47 (0.18)		
		Work organisation	1.37 (0.16)		
		Local personnel policies	1.28 (0.11)		
		Bonuses & incentives	1.18 (0.13)		
		Marketing method	1.00 (0.00)		

Notes : ¹ Based on a scale of 1 to 3, lowest to highest. Highest averages indicate greatest parental control.

force for its establishment in the host market so that possession of ownership advantages positively encourages multinational operations. The transfer of ownership advantages, including both soft and hard technology, thus operate as the *modus vivendi* for the establishment of local offshore operations. In the case of soft technology and especially managerial methods or shop floor human organisation systems, which are not easily tradeable in the market, transfer is greatly facilitated by internalised parent-subsidiary transactions. Table 5 identified quality control and delivery time and to a lesser extent work and organisational practices as firm specific ownership by our sample firms.

Exploitation of the parent's proprietary knowledge, however, need not necessitate a full replication of the parent's management practices. Technology and skills can be transferred by the movement of plant and equipment and by the exchange of personnel. Local managers and operatives can be trained in the use of technology and associated work practices, and market-related knowledge in ways that allow its value to be realised. We hypothesise, therefore, that it is unlikely that Japanese firms would attempt to transfer all of their labour and work practices to the host country unless there were compelling commercial reasons for doing so. Indeed the nature and extent of the transfer will reflect a deliberate strategy by the Japanese parent to design an optimal HRM structure within the subsidiary which allows the parent to most efficiently exploit the ownership advantages that led it to invest in Australia, rather than an *en masse* transfer, which might prove to be incompatible or unnecessary given the particular cultural and institutional forms operating in the particular host country.

Japanese firms then do not attempt a total transfer of the Japanese HRM system to their Australian subsidiaries. Not surprisingly, the core pillars of the Japanese HRM system – lifetime employment, seniority based wages or enterprise unionism – do not exist in a way that could be said to operate in large companies in Japan. What our data reveal, however, is a hybrid HRM system among Japanese firms in Australia containing some elements of the Japanese system which have been either grafted onto the local system or have been modified to maximise the parent's ownership advantages in the Australian market. Life time employment, remuneration schemes, recruitment, on and off-the-job training, flexible work organisation and bonus payments used by Japanese MNEs in Australia are investigated in turn.

LIFETIME EMPLOYMENT

Only Japanese expatriate managers and technicians enjoy lifetime employment in Japanese firms in Australia. All local employees working in Japanese subsidiaries were hired as non-lifetime employees. Our survey found, however, that although lifetime employment had not been introduced by subsidiaries, many Japanese firms provided high levels of job security to employees as a matter of company policy. Many Japanese companies in Australia also adopt typically Japanese strategies with regard to employment adjustment during periods of economic recession, by reassigning workers to alternate duties and exercising the lay-off option only as a last resort. A high level of job security, however, was more likely in manufacturing firms and less likely among

**Table 12 : Operational Areas in which Subsidiaries 'Follow' Parents
(Average Ranking and Standard Error) ¹**

Financial Services		Manufacturing		Tourism	
Decision Area	Average Ranking (SE)	Decision Area	Average Ranking (SE)	Decision Area	Average Ranking (SE)
Product range	2.68 (0.11)	Production technology	2.61 (0.14)	Company philosophy	2.21 (0.15)
Company philosophy	2.65 (0.11)	Product design	2.44 (0.18)	Product range	2.10 (0.23)
Work organisation	2.09 (0.15)	Company philosophy	2.33 (0.18)	Accounting method	2.08 (0.21)
Marketing method	2.04 (0.15)	Product range	2.29 (0.19)	Personnel management	1.92 (0.18)
Personnel management	2.04 (0.11)	R & D	2.06 (0.16)	Marketing method	1.82 (0.23)
Accounting method	2.00 (0.13)	Capital expenditure	1.93 (0.21)	Bonuses & incentives	1.75 (0.18)
Computer hardware and software	1.92 (0.16)	Sourcing inputs	1.88 (0.15)	Computer hardware and software	1.69 (0.21)
Bonuses & incentives	1.61 (0.15)	Work organisation	1.67 (0.14)	Work organisation	1.64 (0.20)
		Personnel management	1.67 (0.18)		
		Accounting method	1.65 (0.15)		
		Marketing method	1.53 (0.13)		
		Bonuses & incentives	1.19 (0.10)		

Notes : ¹ Based on a scale of 1 to 3, lowest to highest. Highest means indicate greatest parental control.

non-manufacturing firms.

REMUNERATION SYSTEMS

The conventional wisdom on wage determination in Japanese overseas subsidiaries is that factors other than seniority dominate the compensation to labour. Dunning, [1986, p.162] cites in the British case, 'wage rates paid in the region by other firms', as being the most single important factor in wage remuneration. Pang and Oliver, [1988, p.18] also find in their study of Japanese subsidiaries in Britain little evidence of the Japanese seniority system of pay, finding the most important criterion to be performance, followed by qualifications, with length of service and age falling in the lower half of the scale. Kennedy and Florida, [1993, pp.111-13] in their US study found

Table 13 : Type of Management Practice

Management Type	Financial Services	Manufacturing	Tourism	Trading Companies	All Industries
Japanese, no modification	—	—	1	—	1
Japanese, minor modifications	12	—	2	2	16
Japanese, major modifications	7	8	5	4	24
Western, some modifications	6	6	3	2	17
Mostly Western	1	6	4	—	11
Respondents	26	20	15	8	69

Table 14 : Organisational Structure of Japanese Subsidiaries

Organisational Structure	Financial Services	Manufacturing	Tourism	Trading Companies	All Industries
Bureaucracy					
Japanese-style bureaucracy	4	0	2	3	9
Pyramid-shaped bureaucracy	10	11	5	1	27
Respondents	14	11	7	4	36
Decision-making					
Collective consensus	12	8	3	2	25
Top-down	6	5	5	2	18
Respondents	18	13	8	4	43

that 'matching wage levels paid by the UAW-organised big three' (Ford, NUMMI, GM) was the most important determinant of wage levels, 'based on single base wage rates'. Dedoussis and Littler [1994, p.18] also assign a marginal role to seniority in remuneration system among the eight Japanese subsidiaries included in their Australian study. They argued that most firms followed a 'bottom line' approach in remuneration with wages 'not exceeding wages offered by competitors and other companies established in the same locality'.

Our manufacturing data showed that experience, skill, rates paid by local Australian companies, rates and award rates of pay were important in determining remuneration but age and local Japanese rates were unimportant. While little has been written on

remuneration patterns among Japanese subsidiaries in the white-collar dominated service sector, our survey shows that the criteria used to determine wage levels in these sectors is similar to that used in the manufacturing sector.

RECRUITMENT

The Japanese practice in large scale companies of employing workers directly out of school has been confirmed among blue collar workers in a number of studies undertaken on Japanese MNE recruitment practices in overseas subsidiaries. [Dunning, 1986, White and Trevor, 1983, Oliver and Wilkinson, 1988, Pang and Oliver 1988, Wilkinson 1989] Pang and Oliver, [1988, p.18] in their study of British workers reported that 73 percent of manufacturing firms surveyed preferred their production workers to be 'raw recruits' taken on directly out of school. Dunning [1986, p.153] also found that 'it is a policy of most [British] affiliates to recruit their labour directly from school'. In contrast, most North American studies have shown a preference for experienced production workers over raw recruits, although research on US subsidiaries also indicates a preference on the part of a number of Japanese subsidiaries for direct recruiting out of school in the case of new greenfield operations.

Table 15 confirms the US experience with 83 percent of manufacturing firms preferring to hire experienced blue-collar workers, with a strong preference for workers with an appropriate trade background. These results are generally in line with Dedoussis's study based on case studies of eight firms, which concluded that mid-career recruitment was the dominant form of recruitment for shop floor workers and that previous work experience was highly valued by Japanese firms. [Dedoussis and Littler, 1994, p.181]

Table 15 : Blue-collar Recruitment Practices in Manufacturing

Skill Category	No of Firms	%
Recently graduated high school students	4	17
Experienced workers any trade	12	50
Skilled workers in company's product group	8	33

The pattern of recruitment in the finance sector suggests that a large proportion of financial firms recruit along generally local lines employing new graduates into the firm to build on firm specific knowledge, whilst at the same time employing experienced

industry personnel in the sub management dealing, lending and corporate areas.

ON AND OFF-THE-JOB TRAINING

Despite differences in firm size, the broad emphasis on training among Japanese firms in Australia is striking. All subsidiaries reported the existence of formal off-the-job as well as on-the-job training programs. Training programs typically included formal off-the-job professional training as well as in-house induction and on-the-job training. One-third of manufacturing companies reported that 100 percent of their employees had been involved in formal off-the-job training programs (*zagaku*), while nearly two-thirds reported that at least 50 percent of employees had been through such training programs.

The apparent emphasis placed on training by Japanese firms in Australia, especially for blue-collar workers, stands in contrast to earlier European studies [White and Trevor, 1984, pp.108-110] but generally confirms more recent country studies. Pang and Oliver [1988, p.18] described as 'striking' the emphasis placed on training by Japanese subsidiaries in Britain, while at the same time noting that training appears to be more restricted in scope than the stylised Japanese model suggests and receives less emphasis than it does in Japan. Abo [1988] and Kuwaja's [1986] studies on Japanese MNEs in the US present similar findings although they note that training is more developed for blue collar-workers than for white-collar workers and is likely to be more pervasive in large companies as compared to small-scale firms.

FLEXIBLE WORK ASSIGNMENT, WORK GROUPS AND QUALITY CONTROL CIRCLES

Most of the manufacturing firms in our sample reported widespread multi-tasking, group work practices and quality control circles among blue collar workers. As a majority (69 percent) of manufacturing firms also report the operation of just-in-time production systems, the substantial use of flexible work practices is not an unexpected result. The extensive and successful application of flexible work practices among blue-collar workers appears similar to the European and North American experience. Kenney and Florida, [1993, pp.221-24] argue that in the US, in both traditional and high tech industrial sectors, the organisation of Japanese subsidiaries on the basis of flexible work assignment and work teams is pervasive, although they suggest that the use of work teams and job rotation is mixed. The prevalence of work teams (75 percent), multiple

tasking (87 percent) and JIT (69 percent) quoted in the same study appear remarkably similar to the Australian experience. Dunning's [1986, p.159] British study also confirms work flexibility operating in Japanese subsidiaries in Britain.

BONUS PAYMENTS

The payment of bi-annual bonuses among Japanese subsidiaries in Australia was still an *ad hoc* process and has yet to become an institutionalised part of the remuneration system, as is the case in Japan. While expatriate managers, technical staff and in the exceptional case of some non-Japanese senior executives are generally paid bi-annual bonuses equivalent to those which they would receive in Japan, bonuses, where they are paid to local employees, tended to be on a much smaller scale. As Table 16 shows, only one-third of Japanese firms paid bonuses to all of their employees, whilst almost half paid no bonuses at all. The frequency of payment was highest among general trading companies, where the majority of companies (57 percent) paid bonuses to all employees, followed by 35 percent of manufacturing firms, 29 percent of tourist-related firms, and 25 percent of financial firms. Sixty percent of manufacturing companies surveyed paid no bonuses at all to local staff.

Table 16 : Bonus Payments to Staff by Industry (%)

	Manufacturing	Finance	Tourism	Trading	All Firms
Management only	0	4.2	28.6	14.3	9.2
All staff	35	25	28.6	57.1	32.3
Paid selectively	5	20.8	14	0	12.3
Not at all	60	50	28.6	28.6	46.2
No of Companies	20	24	14	7	65

JAPANESE SUPPLIER NETWORKS

There is now a large literature on supplier relationships in the domestic Japanese manufacturing sector. Interest in the nature of the Japanese supplier network has arisen for at least three reasons. First, subcontract relationship between the supplier and core firm is usually seen as a crucial ingredient in the competitive advantages of Japanese firms. This in turn raises questions about whether the Japanese 'system' is transferable, that is, whether firms in other countries might benefit by moving toward the Japanese model. Second, a related issue, and one which arises from the rapid

increase in Japanese foreign direct investment since the 1980s, is whether Japanese companies have attempted to emulate the Japanese supplier system in those countries in which have invested. Third, the Japanese system of supplier networks raises practical and theoretical issues about the desirability or otherwise of vertical integration. Vertical integration is a solution to opportunism by suppliers in arm's length and long-term contacts with core firms. The agency problems between suppliers and core firms is attenuated in the subcontracting system in Japan, when mechanisms for tying suppliers to core firms creates a long-term trust relationship. The reproduction of some aspects of the Japanese subcontracting relationship in Australia provides a partial solution to agency problems between Australian suppliers and Japanese subsidiaries in Australia.

SUPPLIER NETWORKS IN JAPAN

The Japanese supplier system takes the form of a pyramidal structure, with the core company, the final assembler, at the top. Immediately underneath it are what are termed first-tier supplier companies, followed by a numerically much larger group of second-tier and subsequent tier suppliers. The tiered structure may have up to ten tiers of suppliers, with some of the lower tiers having several thousand companies, whereas the first tier may involve only a few dozen companies.

Within this network of firms, the core firm structures interorganisational linkages and coordinates flows between them. As Kenney and Florida, [1993, p.45] explain, first-tier suppliers play a vital role as well, acting 'as coordinators organising flows of supplies between lower-level suppliers and the assembler. First-tier suppliers are located close to assemblers, interact constantly with them, and are frequently at least partly owned by them'. A characteristic of the supplier network, they point out, is that 'the final assembler delegates many production and coordination responsibilities to suppliers. In effect, the assembler depends upon each tier to coordinate the tier below it and deliver a defect-free part to the next link in the chain'. [1993, p.45]

The use of this supplier system by large Japanese manufacturing firms stands in contrast to the preference of large United States and Western firms for internalising supplier relations through vertical integration. For example, suppliers in Japan provide as much as 70 percent of the components that go into a vehicle or consumer electronics product, while US automobile manufacturers rely on suppliers for only 30 to 50 percent of inputs. [Kenney and Florida, 1993, pp.44-45]

There are other notable contrasts. One is the tendency in Japan for first-tier

suppliers to be located in close geographical proximity to core firms. Indeed the core firm and its first-tier suppliers often form an industrial estate. This locational strategy springs from the demands of the 'just-in-time' (JIT) production system, which is heavily dependent on the final assembler maintaining a predictable and continuous flow of supplies.

Paralleling this physical closeness of core firm and suppliers is the sharing of personnel between core firms and their suppliers and the sharing of ideas. There is a stream of communication running backward and forward between firms in the supplier complex. Part of the reason for the development of close relations between core firms and their suppliers is a desire to ensure the maintenance of high quality products and the achievement of ever greater efficiencies.

There are subtleties in the relationship between core firms and their suppliers. Kenney and Florida [1993, p.48] argue that 'A fundamental and not widely recognised element of the JIT system lies in its ability to harness the collective knowledge and innovatory capability of a broad corporate complex. The JIT system creates additional conduits for knowledge sharing and innovation'. The flow of knowledge is multi-directional with the core firms and suppliers learning from each other. The sharing of information helps to accelerate the diffusion of new techniques.

This theme has also been taken up by Aoki, [1994] who stresses that the direct linkage of what he calls the prime manufacturing firm (the P-firm) and first-tier subcontracting firms (S-firms) help to economise on information flows and transaction costs: market information regarding final demands collected through the dealers network of the P-firm is fed into the production site of the P-firm for output adjustment of final products and then is decomposed successively as demands for parts and half-processed products of upstream S-firms.

THE SOURCING PRACTICES OF JAPANESE MNEs

The sourcing practices of Japanese firms have been a cause of intense debate in recent years. In the United States and Britain the claim is often made by critics of Japanese foreign direct investment that the local Japanese firms are merely 'screwdriver plants' which do little more than assemble parts which have been sourced almost entirely overseas, and mostly from Japan. Another criticism is that the only things sourced locally are the more standard, unsophisticated parts while the more complex components are imported from the Japanese parent company. Japanese affiliates have either denied

these allegations or have pointed to a host of difficulties (to do with the quality and availability of supplies) which have made it difficult to increase local content. [Strange, 1993, p.398]

Similar complaints have emerged in Australia. Some writers claim that Japanese manufacturing companies in Australia tend to engage in enclave operations. [Edgington, 1991, p.73] Kreinin's [1989, p.541] survey of Japanese, American and European manufacturing operations in Australia, which attracted much attention in the United States, concluded that 'the vast majority of capital equipment used by Japanese subsidiaries in Australia ... [is] ... of Japanese origin ... [whereas for] ... US and European investors ... there was ... no preponderance of equivalent purchases from any one source'. [Edgington, 1991, p.73] Kreinin [1989, p.541] argued that parent companies exercised strong control over Japanese subsidiaries in Australia. The latter tended to use and operate Japanese-made and Japanese-procured machinery.

The problem with this argument is that it lacks an historical dimension. It has been well established that the reliance of affiliates on local suppliers tends to increase over time. This is true of Japanese affiliates in Europe as well as of US affiliates in countries such as Australia. Kreinin's survey ignores the age of the affiliates. The American and European firms with which Kreinin makes comparisons are decades old whereas many Japanese manufacturing affiliates in Australia have been established only in recent years. [Drysdale, 1993, p.35] The differences, therefore, in the sourcing practices of firms of different origin should come as no surprise and does not need to be explained in terms of exclusionary practices.

Our survey data provides a new and more complex perspective on supplier practices of Japanese affiliates in Australia. They give insights into the purchasing practices of Japanese firms according to a variety of input types. They also enable us to draw conclusions about the relative importance of a variety of supplier practices, including the role of long-term versus short-term suppliers, Australian versus local Japanese firms, and Australian versus imported Japanese suppliers.

SOURCING PRACTICES OF JAPANESE MNEs IN AUSTRALIA

One of the aims of the survey was to determine the reliance of Japanese firms on a variety of input sources. Key questions were: To what extent do Japanese firms in Australia import their inputs from Japan? To what extent do they rely on other Japanese firms in Australia? Do they rely principally on Australian suppliers and, if so,

is the preference for long-term or short-term suppliers? The principal conclusions were as follows :

- Very little use was made of local Japanese firms as suppliers of inputs, whether it be raw materials, components, finished goods or capital equipment.
- A very high percentage of the firms had no in-house inputs of raw materials or of capital equipment.
- There was a heavy reliance on Australian suppliers for raw materials and component parts, and to a lesser extent for capital equipment, but not for finished goods. Likewise, the survey revealed that local Australian firms were especially preferred as suppliers of bulk, low technology inputs/components and standardised/median technology inputs/components, but somewhat less so for sophisticated inputs/components.
- Firms tended not to import inputs from non-Japanese sources.
- Imports from Japan were largely restricted to finished goods and capital equipment.

These results show that there is no support for the criticism that Japanese MNEs sourced from Japan, ran 'screwdriver' plants or engaged in enclave operations in Australia. Inputs were mainly sourced from Australia, and from mostly non-Japanese suppliers.

THE RELATIONSHIP BETWEEN JAPANESE MANUFACTURING FIRMS AND THEIR SUPPLIERS : AUSTRALIA IN COMPARATIVE PERSPECTIVE

Our survey indicated that whether inputs came from Japan or from Australia, there were a number of similarities in the way the criteria were ranked. Quality was the outstanding requirement in both cases. Price was the second most important criterion for inputs from Japan but was ranked equal first inputs from Australia. Reliability of delivery was another very important criterion for inputs from Australia (but not for Japan). So too was availability. Table 6 shows that government regulations, in the form of duties and tariffs and local content rules, as well as government preferences for local sourcing, were only of moderate importance in sourcing inputs from Australia. The idea of being a good corporate citizen was ranked lower still.

These results are broadly in line with Dunning's [1986] survey of Japanese subsidiaries in the UK, conducted in the early 1980s. Dunning [1986, pp.107-110] showed that the most frequently cited purchasing criteria were product availability, product quality and price. One contrast is that the manufacturing firms in Dunning's

sample generally did not consider after sales servicing to be significant, whereas it was ranked relatively high by those in our sample.

Our survey shows that Australian suppliers have not done very well in meeting the criteria set by Japanese manufacturing firms. In this respect, the Australian situation parallels the situation in Britain and the United States. Japanese subsidiaries in Britain have consistently complained about poor quality and poor delivery reliability by British supplier firms. Oliver and Wilkinson's [1992, p.274] surveys indicated that during the 1980s local (British) suppliers 'were improving their capabilities, although Japanese manufactures continued to be uncomplimentary about local components with regard to price, quality and delivery'. They noted also that 'throughout the 1980s, accounts of Japanese companies' concerns about the quality of locally sourced parts were frequent'. [Oliver and Wilkinson, 1992, p.274] To cite one example, a report in the late 1980s by Coopers and Lybrand into the automotive component purchasing patterns by Japanese firms in the UK pointed to problems in the quality of components and the ineffective and superficial nature of quality improvement programs, excessively high prices compared with Japan, and the frequent failure of British suppliers to meet delivery dates. The last mentioned were quoted in weeks whereas in Japan they were quoted in days or sometimes even hours. [Oliver and Wilkinson, 1992, p.274] Likewise Trevor and Christie [1988] documented the concerns of a host of Japanese managers about the failure of many components made in the United Kingdom and Europe to match the quality, cost and performance of those made in Japan.

Our survey revealed that a long term relationship between suppliers and Japanese subsidiaries were slowly developing in Australia. Almost invariably, Japanese firms in Australia sought quotations from their local suppliers. It was less common, however, to provide details of the input to potential suppliers before seeking quotations. The unwillingness to provide details suggests not merely a disclosure problem but is indicative of the failure of Japanese firms to enjoy the same sort of cooperative spirit which is characteristic of supplier networks in Japan.

Reference has often been made to the fundamental importance in the Japanese production process of establishing and maintaining close bonds between firms and their suppliers. The overseas evidence suggests that Japanese affiliates in Britain have invariably tried to emulate this practice with their principal local suppliers. [Dunning, 1986, p.111] It is one thing, however, for Japanese affiliates to have a commitment to building a lasting relationship with suppliers; it is another for it to be reciprocated.

Part of the problem, as Dunning pointed out, is that the affiliates expect in return 'a total acceptance and adherence to their requirements and standards', something especially evident in quality control, inspection and testing procedures.

The Japanese method of dealing with suppliers has often been seen by local suppliers in the UK to be bizarre and a cause for resentment. Another source of tension is the frequent insistence by Japanese affiliates 'for a detailed cost breakdown of parts and components. For major purchases, the Japanese will often cost the items themselves and, when in doubt about a quotation, require further explanation, or even suggest ways in which they believe costs could be reduced'. [Dunning, 1986, p.114] Consistent with this approach, the evidence provided by Japanese companies in Britain suggests that the selection of suppliers is both cautious and rigorous. [Dunning, 1986, p.111; Morris and Imrie, 1992, pp.76-7; Oliver and Wilkinson, 1992, p.276]

Our survey found that Japanese firms visited their Australian suppliers regularly. This was frequently complemented by the Japanese firms providing advice on material specifications and procurement. But in other ways, Japanese firms were unwilling to provide advice. There was a marked reluctance, for example, to give advice on such thing as management and production methods. There is a notable contrast here not only with the way supplier networks operate in Japan but with the practices of Japanese affiliates in the UK.

For all the importance attached to forging a long-term relationship, the respondents revealed that there were distinct limits to the extent to which Japanese firms interacted with their Australian suppliers. They rarely trained the operatives of supplier firms and were even less likely to coopt their staff. There was also some reluctance to form a social relationship with suppliers.

It is also clear that there has not yet developed in Australia the sort of sharing of information and close consultation which characterises new product development by manufacturing firms and their supplier networks in Japan. Two-thirds of the firms responded that they rarely or never transferred tools and machinery. While there was greater willingness to transfer designs and drawings to suppliers, no Japanese firm said that this was the usual practice.

In spite of these boundaries on the relationships, Japanese firms nevertheless tended to view their Australian suppliers as being reasonably cooperative and generally willing to overcome some of their failings, such as those to do with quality, delivery times and prices. Australian suppliers were also viewed as being reasonably receptive to the idea of forming a long-term relationship. Despite this, and in parallel with the situation in

Britain, there was still a great deal of ambivalence by Japanese firms as to whether Australian suppliers were acting in the interests of their principals. The contract arrangements between suppliers and Japanese MNEs in Australia did not attenuate the agency problem through subcontracting as was the case at home. However, Japanese MNEs in Australia sought to implement contracts which fell between vertical integration (typical of Western MNEs) and spot market contracts. There was much progress still to be made before Japanese MNEs formed a long term relationship with the Australian suppliers.

CONCLUSION

Japanese MNEs are important players in the Australian economy, although they are under-represented in the manufacturing sector. The motivation and reasons for their involvement in the economy is consistent with the generic transaction cost and agency model of the MNE. The Japanese MNEs in our sample relied on their ownership advantages related to product and production technology, work practice and governance factors to successfully overcome the disadvantages of competing at a distance in the Australian market. The reasons Japanese MNEs selected Australia as a location for FDI were sector specific, with supplying the Australian market for manufacturing firms, servicing Japanese businesses in Australia for financial service firms and the physical attributes of Australia for tourist firms. Government policy in the form of taxes, incentives, tariffs and local content rules were of low to medium importance for manufacturing firms. Strategic factors were unimportant in the choice of Australia as a location for FDI.

Parents of Japanese subsidiaries operating in Australia maintained tight controls to attenuate agency costs due to multi-locations and to transfer and realise ownership advantages that underpinned the foreign direct investment decision. The survey data suggest that a variety of control techniques were used, including ownership, centralised decision making by head quarters, socialisation of key managers, and monitoring the subsidiary's performance as a profit center. Japanese parents economised on the use of its own resources by retaining tight controls via allocation of capital to the subsidiary and strategic inputs such as production and process technology, while allowing autonomy in the area of local hirings, input sourcing and work organisation. Control was retained through a combination of a preponderance of socialised managers who had internalised the goals of the parent, and by monitoring the subsidiaries' profit

performance.

We found Japanese MNEs transferred only those aspects of their domestic HRM practices that were necessary for them to realise the ownership, localisation and internalisation advantages that led them to make the foreign direct investment decision. Japanese parents have not replicated Japanese management systems in their local Australian subsidiaries. Nor have subsidiaries adopted the core elements of the Japanese HRM system: namely lifetime employment, seniority-based wages and enterprise unionism. Instead, subsidiaries have opted for hybrid structures containing elements of both Japanese and local practices. The replication of Japanese HRM systems, especially the creation of a Japanese-style internal labour market was unnecessary to achieve the parent's goals in Australia. Moreover, the creation of hybrid structures which contained an amalgam of Japanese and local practices was not result of any inability on the part of expatriate managers to recreate Japanese structures in the local environment; rather it was unnecessary or the potential benefit of doing so was not justified by the costs involved.

However, Japanese management style and HRM practices have clearly influenced the operations of subsidiaries in Australia and there has been some transfer of Japanese human resource management practices and philosophy to the large majority of Japanese firms in Australia; with a substantial application of those labour practices which are embedded in the Japanese product and process technologies which our survey companies identified as being among the key sources of their competitive advantage in the Australian market. Even when core Japanese HRM practices were not transferred, often there was nevertheless a Japanese approach to HRM management adopted. Although lifetime employment, for example, was a practice not adopted by Japanese firms in Australia, many companies attempted to provide high levels of job security to their employees as a matter of corporate policy, adopting typically Japanese strategies with regard to employment adjustment, although this was more likely to be the case for manufacturing than for non-manufacturing firms.

A similar conclusion holds for the transfer of the special supplier-core firm relationships to Australia by Japanese MNEs. Japanese MNEs did not attempt to recreate Japanese suppliers networks in Australia, or to use Japanese suppliers, either in Japan or Australia. Rather, Japanese firms developed supply agreements with Australian suppliers which shared similarities with their supply networks at home. Japanese firms sought these contracts with Australian suppliers in order to attenuate agency problems which arose when suppliers had better and different information than themselves.

There was a focus on quality, reliability of delivery, and price in the contracts with Australian suppliers, which duplicated the concerns which the Japanese MNEs had with their domestic Japanese suppliers. While Australian suppliers did not achieve the criteria set by the Japanese MNEs, Australian suppliers performed higher than their British and American counterparts. The long-term relationships which characterises Japanese domestic supplier relations was not duplicated in Australia. However, Japanese MNEs visited suppliers and provided advice on material specifications and procurement. They rarely transferred plans and design, did not train suppliers' staff and did not establish social relationships with their Australian suppliers. But Japanese MNEs did develop relationships with their Australian suppliers which ensured the successful transfer of their ownership advantages in process and product technology, work organisation and HRM skills.

Overall, Japanese MNEs have made a major contribution to the growth and performance of the Australian economy. Australia may be more satisfied with Japanese investment than the Japanese MNEs have been satisfied with their investments in Australia. On the scale 1 unsatisfied to 4 satisfied, Japanese managers were most satisfied with labour relations (3.0) and work practices (3.0). Satisfaction of manufacturing firms with their investment (2.6) and profitability (2.3) were unsatisfactory during late 1993 – early 1994 which was a recession period. Eighty eight percent of the manufacturing firms reported a profit, with one firm breaking even and one firm making a loss.

Cost of production (2.4) and productivity (2.5) were also unsatisfactory. From the perspective of Japanese managers, tourism and financial services firms also performed poorly, with satisfaction with profitability scoring 2.4 for financial services and 2.1 for tourism, and satisfaction with profitability scoring 2.7 for financial services and 2.5 for tourist firms. In spite of these low levels of satisfaction with their investments, Japanese MNEs are in Australia for the long haul, and recent figures suggest an increasing amount of Japanese FDI during 1995/96.

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