“Globalizing Activities and the Rate of Survival:
Panel Data Analysis on Japanese Firms “*

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Abstract

This paper conducts a Cox-type survival analysis of Japanese corporate firms using census-coverage data collected by METI in the mid-1990s. The analysis, fbased on careful study of the exiting of firms, confirms the claims made in the academic and semi-academic literature concerning several peculiar characteristics of Japanese firms. .

First, we find that excessive internalization in corporate structure and activities seems to be harmful for corporate survival. Having too many establishments and affiliates is not good for corporate survival. Active concentration on core competence by using outsourcing contracts increases the probability of survival. This finding may depend on the historical background as well as on the market conditions that Japanese firms were confronted with in the mid-1990s.

Second, global commitment seems to help Japanese firms to be more competitive and renders them more likely to survive. However, the channels or types of global commitment must be carefully selected according to the size of the firm. Small firms can benefit from exporting activities, though having foreign affiliates or conducting foreign outsourcing may aggravate rather than help their performance. Large firms, on the other hand, can utilize channels of foreign direct investment and foreign outsourcing to enhance the probability of their survival.

Third, we find that while corporate performance matters in the choice of exits for affiliate firms, it does not matter as regards the survival/exit of independent firms. We must recognize the possibility of the malfunctioning of the market mechanism in the exits of independent firms. Considering the low level of turnover ratios in Japan, there is a strong need for an economic environment where corporate turnovers are easier and more efficient.

Fourth, we do not find any statistically significant evidence that firms with foreign shareholders are more likely to exit. After controlling other factors, our regression results indicate that little evidence exists for foot-loose behavior among foreign companies.