The Internationalisation of Japanese Professional Business Services

Recent development and future prospects in Asia

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Master Degree Project No. 2014:20
Graduate School
ABSTRACT

Although Japan is one of the world’s largest economies its service sector is less developed than that of other industrialised countries and the sector also lags behind in terms of internationalisation. Research has suggested several explanations to the current state of the sector, but there are also indications that the sector slowly is catching up.

This study is concerned with the development of Japanese professional business services (PBS) in the light of structural changes in the Japanese economy as well as an increasing importance of services in Asia. Using a multiple-case study methodology based on semi-structured interviews, this study attempts to expand our understanding on the evolving nature of Japanese PBS firms. In particular the study makes an attempt to explain how structural changes in the Japanese economy have affected the internationalisation of Japanese PBS firms. An attempt is also made to assess the future prospects of the Japanese PBS in Asia.

The findings suggest that structural changes in the Japanese economy have had a limited impact on the internationalisation of Japanese PBS firms, but internationalisation is an important issue. Government interference, underlying structures in society, languages issues and cultural differences still significantly inhibit the internationalisation of Japanese PBS firms. However, Japanese PBS firms hold competitive advantages in serving Japanese clients. Therefore, Asia provides the best environment for future development of the Japanese PBS industry, because many Japanese firms have operations in the region. Major urban cities in the region will provide access to both markets and important business networks. Establishing connections to new non-Japanese business networks will be challenging given differences in language in cultures. Therefore, employment and successful management of local staff will be essential.

Keywords: Professional business services (PBS), Japan, internationalisation, Asia, structural changes
ACKNOWLEDGEMENTS

We would like to express our very great appreciation to Professor Patrik Ström, our supervisor, for his excellent guidance, useful critique and enthusiastic encouragement throughout the work with this thesis. His great knowledge in the field of PBS added significant value to the study. A special thanks is also extended to Mr Stephen Givens for his assistance in arranging interviews during our stay in Tokyo. In addition, we would like to thank all companies, organisations and interviewees who gave their precious time to participate in the study. Finally, we wish to offer our special thanks to the Elof Hansson Foundation for their financial support. Without their generous grant we would not have been able to conduct this study.
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<th>Full Form</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
</tr>
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<td>INV</td>
<td>International New Ventures</td>
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<td>KIBS</td>
<td>Knowledge Intensive Business Services</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>Mergers &amp; Acquisitions</td>
</tr>
<tr>
<td>METI</td>
<td>Ministry of Economy, Trade and Investment</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OFDI</td>
<td>Outward Foreign Direct Investment</td>
</tr>
<tr>
<td>PBS</td>
<td>Professional Business Service Firms</td>
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<td>SME</td>
<td>Small and Medium-sized Enterprise</td>
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1 INTRODUCTION

In this section a brief background is provided to describe the historical setting in which the restructuring process of the Japanese service sector started. This is followed by a problem discussion on services and business services in the Japanese economy, which results in the purpose and research questions of this study. Lastly, at the end of the section an outline of the study is provided.

1.1 BACKGROUND

Following the appreciation of the US dollar in the early 1980s and fears of an ever increasing unbalance in the international trading system, government representatives of the US, the UK, West Germany, France and Japan met at the Plaza Hotel, New York, on September 22, 1985. According to the agreement that followed the overvalued US dollar was allowed to depreciate against the currencies of the other countries. This would in the case of Japan constitute a huge blow against the nation’s important export-dependent industry. In order to cushion the dramatic effects the Bank of Japan adopted a relatively loose monetary policy during the remaining part of the decade. This decision led not only to rising inflation rates, but also to what was to become known as the Japanese asset price bubble, a period of time when stock and real estate prices skyrocketed (Krugman, 2009). The Nikkei index reached its all time high by the end of 1989 and throughout the decade Japanese companies constantly took market shares overseas, especially in the US (Chandler and Mazlish, 2005). The clear majority of the affected firms were engaged in manufacturing, operating in fields such as automobiles, motorcycles and television and many had connections to the large Japanese business groups referred to as the keiretsu (Porter, 1990; Chandler and Mazlish, 2005). At the center of each keiretsu was a bank and/or a general trading company, sogo shosha, assisting in the coordination of domestic and international activities.

The sogo shosha worked as trade intermediaries and were particularly important in facilitating the internationalisation of Japanese companies since they possessed the required knowledge and expertise (Chandler and Mazlish,
The central role of *sogo shosha* as trade intermediaries led to a business environment favouring internal business service providers over external (Ström, 2005). This unique organisational design of tight internal collaboration proved efficient until the burst of the bubble in the beginning of the 1990s (Krugman, 2009; Hosono, Sakai and Tsuru, 2007; Ström and Yoshino, 2009). With the burst Japan fell into deep recession and the *keiretsu* began to face financial difficulties as the burden of non-performing loans in the affiliated banks increased. As a result consolidation was forced upon the banks during the entire 1990s (Hosono et al., 2007), a period of time usually referred to as the lost decade. The dramatic development would also mean that manufacturing firms within the *keiretsu* no more could rely on financial support from their banks, forcing them to lower costs and to become more efficient. This in turn meant that *keiretsu* connections became less important (Ström, 2004; Ström and Mattsson 2005), posing a problem for business service suppliers within the *keiretsu* who were dependent on the internal client base. In addition, the Japanese government decided to liberalise previously heavily regulated business areas, opening up for both domestic and foreign competition (Ström and Mattsson, 2005). This put additional pressure on business service firms to adapt to new economic conditions.

### 1.2 Problem discussion

Despite the prolonged economic difficulties of the country, Japan maintains its place as one of the world’s largest economies. The Japanese manufacturing sector has been the primary driver of economic development post World War II and manufacturing companies were early to establish operations in the international arena. The foreign entry of large Japanese manufacturers promoted the internationalisation of other supporting activities, which have contributed to the creation of complex cross-border production networks among Japanese manufacturing and service multinationals, particularly in Asia (Ström and Yoshino, 2009). However, the internationalisation of the Japanese service sector has not been as prominent as that of the manufacturing sector (Asakawa, Ito, Rose and Westney, 2013; Ono, 2001; Ström, 2004). In 2004, Japan represented an approximate share of only 1% in the world’s total...
foreign direct investment (FDI) in services (Ministry of Economy, Trade and
Industry [METI], 2007) and Japan’s service trade is small compared with
other major developed countries (METI, 2012). Research has highlighted
the fact that Japan lags behind other advanced nations in terms of service
sector development, both with regard to employment and contribution to
GDP (Bramklev and Ström, 2011; Ström and Yoshino, 2009; Ström, 2005;
Ono, 2001).

Early explanations to the weakness of Japan in international services
have focused on the distinctiveness of the Japanese culture (Enderwick,
1990; Johansson, 1990) and the tendency of Japanese manufacturing firms to
internalise services in close connection with manufacturing (Dicken, Tickell
and Yeung, 1997; Ström and Yoshino, 2009; Ström and Mattson, 2005).
The tradition of using internal service providers within the keiretsu business
networks rather than allowing competition among external service providers
is suggested to have lowered the overall competitiveness of the sector (Ström
and Yoshino, 2009). The relatively low competitive strength of the sector has
also been a consequence of protective market regulations (Ono, 2001).

The economic situation after the burst of the bubble forced Japanese
multinationals to become more efficient and rational in the procurement of
services (Ström, 2004), but organisational linkages within Japanese multi-
nationals remain strong. This has according to Ström and Mattson (2005)
generated a diversified supply of business services within the companies.
However, they also found strong evidence that business service firms are
becoming increasingly specialised as a result of a structural changes in the
business environment. Further studies on Japanese business service firms are
important in order to better understand this organisational evolution, the
nature of these firm’s international operations and their future prospects on
the global arena.

In the early 2000s, METI stressed the need of the Japanese domestic service
industry to develop internationally and provide services to other than domestic
manufacturing firms (METI, 2002). While the internalisation of services is
argued to have hampered the international development of the Japanese
service industry, the close connection between services and manufacturing
industries can also provide significant value and improve the competitive
strength of firms (Bramklev and Ström, 2011). This is expected to facilitate the overseas development of the Japanese service industry, especially through the promotion of high-value added production (METI, 2012). Services are increasingly becoming an important part of manufacturing, accounting for higher shares of value-added among multinational manufacturing companies (WIR, 2004). This development further justifies the study of business services in Japanese multinationals and how the organisational linkages between service and manufacturing firms are evolving.

A geographical and functional broadening of overseas activities of Japanese companies has been observed in both manufacturing and non-manufacturing in recent years and deficits in service trade have been decreasing (METI, 2012). Surpluses are for instance recorded in Asia (METI, 2012). Model cases where knowledge-intensive service industries experience international success are also reported to have increased (METI, 2012). In the same time the Asian region is undergoing tremendous development and the contribution of services is on the rise (Asian Development Bank [ADB], 2012). The service sector will be of significant importance to promote further growth and development in the region. However, traditional services with low productivity still represent the lion’s share of the sector. The promotion of high value-added services, such as finance, information and communication as well as professional business services (PBS) will be crucial to sustain economic growth in the region (Noland, Park and Estrada, 2013; ADB, 2012). As economic geographies and relationships transform the region the question raises how this can facilitate further development and improved competitiveness of PBS firms.

1.3 Purpose and research questions

More than 20 years have passed since the burst of the Japanese asset price bubble initiated structural changes throughout the Japanese economy. New economic realities have raised the amount of competitive pressure on Japanese companies inducing a multitude of strategic and organisational responses. Relatively little research has been devoted at explaining how these issues affect the PBS industry of Japan and its lingering internationalisation. Important contributions in recent years are those of Ohno (2001), Ström (2004), Ström
(2005), Ström and Mattson (2005, 2006), Ström and Yoshino (2009), Fukau (2010), Bramklev and Ström (2011), Tanaka (2011) and Asakawa (2013), but more in-depth studies are required. Against the background of structural changes in the Japanese service economy and the growing importance of PBS in Asia, the purpose of this study is to expand our understanding on the evolving nature of Japanese PBS firms and their internationalisation in Asia. The research questions this study aims to answer are as follows:

- How have structural changes in the Japanese service economy affected the internationalisation of Japanese PBS firms?
- What are the future prospects of the Japanese PBS industry in Asia?
2 Services

The purpose of this section is to provide a brief contextual background on services. This is done both with regard to the global, Asian and Japanese contexts. Moreover, a discussion on PBS as a specific sub-group of services is also presented.

2.1 The service industry in the global economy

Services constitute an important part of the modern world economy. According to WIR (2004), their share of the GDP in developed and developing countries was 72% and 52% respectively in 2001. These high shares are a result of liberalisation policies that were implemented in the middle of the 1980s. Before that period, service industries in many countries were characterised by heavy regulations, which impeded both internationalisation and trade in services. However, the reduction of such regulations would take away many of the obstacles associated with services, resulting in a significant acceleration in the internationalisation of services (WIR, 2004). Before the liberalisation policies came into effect in the 1990s, the majority of FDI in services had traditionally been in trade and finance (WIR, 2004). Towards the end of the 1990s, trade and finance would be joined by other service sectors, such as electricity, business services and telecommunications. Geographically, FDI in services has been primarily directed at developed countries, particularly the US and member states of the European Union. However, recently developing countries have also managed to attract substantial amounts of FDI in certain service sectors, such as trade, construction, restaurants, hotels and business activities (WIR, 2004).

2.1.1 An introduction to services

The world economy is nowadays predominantly characterised by services. However, despite the larger importance of services (Ström, 2005), research in the field has been meager (Merchant and Gaur, 2008). The neglect of more profound research on services has created a vacuum in terms of
internationalisation theory, but plenty of researchers have tried to categorise and define services.

According to Illeris (2007), a service is an economic activity, which in the traditional division of economic activities is positioned under the term “the tertiary sector”, indicating an economic activity which is unable to produce or modify material goods. In addition, a service can also be distinguished as something that must be consumed in the same process it is produced, making it impossible to store and use in the future (Zeithaml, Parasuraman and Berry, 1985). This is not the case for physical goods where the production of a good can be isolated from its consumption (Illeris, 2007). Grönroos (1998) and Kotler (1997) express similar thoughts, referring to a service as an activity or a series of activities with a somewhat intangible appearance. In addition, Grönroos (1998) states that due to the nature of services, service companies are incapable of providing goods to customers. Instead, services resemble more the delivery of processes where the nature and outcome ultimately determine the quality and value of the services.

As far as the categorisation of services is concerned, Erramilli (1990) suggests that services can be divided into two broad groups, hard and soft services. The difference between the two is that hard services hardly demand any local presence and they are also exportable, since it is possible to detach consumption from production. On the contrary, soft services require local presence since consumption and production constitute a simultaneous process (Erramilli, 1990).

Furthermore, according to Ball, Lindsay and Rose (2008), soft services can be divided into two sub-categories; location-intensive and information-intensive. Location-intensive services involve intangible actions on tangible products. For instance, this is the case of retailing and fast food. Information-intensive services also involve intangible actions, but customers, not tangible products, constitute the target. The provision of such services requires complex communication with customers in order to develop solutions that specifically answer to their needs. Typical examples of information-intensive services include software development and management consulting.
2.1.2 The definition of PBS

Among the broad range of service activities in the tertiary sector a certain subcategory of PBS can be distinguished. However, finding a general definition of this subcategory in contemporary research literature is a somewhat complex task. PBS have been the target for discussion in a multitude of articles, reports and books on services (e.g. Abdelzaher, 2012; Brock, 2012; Li et al. 2011; Ström, 2004; Ström, 2005; Ström and Mattson, 2006; Hitt et al. 2005; Dickens, 2011; Rodriguez and Nieto, 2012; Von Nordenflycht, 2010; Asian Development Bank, 2012; World Investment Report, 2004; Nachum 1996; Netland and Alfnes, 2007), but no common definition on PBS has been established. As a result, various denominations have developed with the purpose of distinguishing this specific service sub-sector, e.g. professional services (PS), professional service firms (PSF) and knowledge-intensive services (KIBS) (Rodriguez and Nieto, 2012; Ström and Mattson, 2006; Netland and Alfnes, 2007; Hitt et al. 2005; Daniels and Bryson 2005). However, for the purpose of this study the term PBS and PBS firms will be used.

Despite the difficulties of finding a common definition, research efforts have been directed at establishing the typical characteristics of PBS (Von Nordenflycht, 2010). The most prominent view has been to regard PBS firms as an entity that contains a professionalised workforce while also being knowledge intensive and low capital intensive (Von Nordenflycht, 2010). Nevertheless, even this approach has found itself to be criticised and insufficient. In addition, there has also been uncertainty regarding the division of PBS into sub-categories (Abdelzaher, 2012; Brock, 2012; Dickens, 2011, Ström and Mattson, 2006). However, in the majority of the articles touching upon PBS firms certain similar subcategories can be distinguished (Abdelzaher, 2012; Brock, 2012; Dickens, 2011, Ström and Mattson, 2006, Hitt et al. 2005; Welch, 2005; Nachum 1996).

2.2 The Asian service economy

It is difficult to provide an unanimous picture of the Asian service economy. This is primarily due to the fact that the Asian countries currently are in different stages regarding the development of the service sectors. In
some countries, e.g. China, the service sector has suffered as a consequence of government policies favouring export-oriented industries, while in other countries, e.g. India and the Philippines, services primarily in the ICT sector have helped to increase the importance of the service sector in the domestic economy (ADB, 2012). Nevertheless, despite the differences the service sector has grown continuously throughout the region.

In the prominent South Asia services grew by 60% in the period 2000-2010. In Southeast Asia the corresponding figure was slightly more than 50%. As far as the employment is concerned, services represented 50% only in Hong Kong and Singapore in 1990. By 2012 these countries had been joined by South Korea, Malaysia, The Maldives, Taiwan, The Philippines and Kazakhstan. All these countries stand out considerably considering the fact that the service sector’s share of employment in Asia on average was 34 % in 2012. The difference in the growth rates in the region have therefore resulted in different contribution rates of the service sector to the GDP (ADB, 2012).

However, despite the positive development of services, both in terms of GDP and employment, the majority of the Asian countries share the problem of low service productivity. According to ADB (2012), the productivity of services in Asia is only one-fifth compared with the countries of the OECD and in some Asian countries the service productivity is even lower. Furthermore, it is expected to take about 30 years for these countries to reach the same level as other OECD and developed Asian economies.

The reason why Asian countries demonstrate low productivity figures is because they primarily have been operating within traditional services, which tend to exhibit lower productivity. In order to avoid the risk of being trapped with these kind of services the ADB suggests that affected countries aim at developing their service economies to include services where the value-added is higher, e.g. ICT, PBS and finance. High value-added services have so far amounted to less than 10% of Asia’s service economy and this is significantly lower than the share of 20-25% in advanced economies. Investments in ICT and education will be important to promote the development of high-value services (ADB, 2012). Education will be especially important since these kind of services demand a highly skilled labour force for successful delivery. Policy-making favouring the development of the service sector will also be
2.3 The Japanese service industry

The Japanese service industry is often referred to as being highly regulated, labour intensive and unproductive (Ono, 2001; Jones and Yoon, 2008). These characteristic features are a product of the Japanese government and the role it has played in orchestrating the Japanese service industry over several decades, but the unique service culture of Japan has also had an important impact in shaping the industry (Ono, 2001; Asakawa, 2013).

According to Ström (2005), the Japanese service industry has demonstrated limited competitiveness and underdevelopment in relation to the total size of the Japanese economy. The limited competitiveness of Japanese service firms, especially in an international context, has also been covered by other researchers (Ono, 2001; Jones and Yoon, 2008; Asakawa, 2013). For instance, Ono (2001) perceives government involvement as the main contributor behind the limited competitiveness of Japanese service firms. According to Ono (2001), regulations established by the government created an overprotected domestic market free from foreign competition. That resulted in a lack of experience in Japanese service firms making them uncompetitive in an international context. In addition, the lack of experience and the protective stance of the government created a pool of unproductive service firms (Jones and Yoon, 2008). Fukao (2010) also touched upon the same subject and found numerous areas where Japanese service firms would need to undertake measures in order to increase productivity. For instance, they have made only low investments in intangible assets and the accumulation of ICT is also not high.

An overview of the Japanese service industry’s low contribution to its GDP can be seen in Table 1. The figures indicate that compared to other major industrialised countries the service sector in Japan has for a long time contributed significantly less to GDP.

Another characteristic feature of the Japanese service industry has been the low employment in the service sector in relation to total employment. In comparison to other major industrialised countries in OECD it has been
Table 1: The Japanese Service Sector, Value Added and Contribution to Total Employment

<table>
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<tr>
<th>Country</th>
<th>% of GDP</th>
<th>% of Employment</th>
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<tr>
<td></td>
<td>1990</td>
<td>2000</td>
</tr>
<tr>
<td>Canada</td>
<td>65.8</td>
<td>64.5</td>
</tr>
<tr>
<td>France</td>
<td>68.7</td>
<td>74.2</td>
</tr>
<tr>
<td>Germany</td>
<td>61.2</td>
<td>68.2</td>
</tr>
<tr>
<td>Italy</td>
<td>64.5</td>
<td>69.0</td>
</tr>
<tr>
<td>Japan</td>
<td>60.4</td>
<td>67.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>64.4</td>
<td>72.0</td>
</tr>
<tr>
<td>United States</td>
<td>71.3</td>
<td>76.4</td>
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</tbody>
</table>

Source: World Bank, 2014

significantly lower (Ström, 2005). Table 1 shows the employment share of the service sector in relation to Japan’s total employment. With the exception of Italy the share was significantly lower than that of the other industrialised countries in 2010. Figures from other years also show that the employment in the Japanese service sector has been relatively low. As shown in Table 2 the same historical trend can be observed in data on the employment in PBS.

Table 2: Contribution to Employment by PBS, % of Total Employment

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<tbody>
<tr>
<td>Canada</td>
<td>12.7</td>
<td>16.0</td>
<td>17.9</td>
</tr>
<tr>
<td>France</td>
<td>14.4</td>
<td>17.5</td>
<td>18.9</td>
</tr>
<tr>
<td>Germany</td>
<td>N/A</td>
<td>14.8</td>
<td>17.4</td>
</tr>
<tr>
<td>Italy</td>
<td>9.3</td>
<td>12.9</td>
<td>15.0</td>
</tr>
<tr>
<td>Japan</td>
<td>10.7</td>
<td>12.6</td>
<td>15.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>15.3</td>
<td>18.8</td>
<td>21.1</td>
</tr>
<tr>
<td>United States</td>
<td>16.0</td>
<td>18.0</td>
<td>18.2</td>
</tr>
</tbody>
</table>

Note: Data includes employment in finance, insurance, real estate and business services in accordance with ISIC Rev. 3. Source: Organisation for Economic Cooperation and Development [OECD], 2014

Apart from the government’s important role in limiting the competitiveness of the Japanese service sector, organisational linkages have also inhibited the development of the sector. Organisational linkages have resulted in a business service market characterised by a diversified supply of services within companies, also known as service bundling. The internalisation of services has proven disadvantageous for Japanese service firms in the international context, since they must compete with highly specialised Western firms (Ström and
This has made many sogo shosha outsource certain non-core activities, but Japanese research institutes have not undertaken similar actions. They have all made the decision to keep business operations intact, since they still regard service bundling as a competitive advantage (Ström and Mattsson, 2005).

As briefly mentioned in the beginning of this section, the cultural aspect has also been one of the most prominent determinants behind the current state of the Japanese service industry. According to Asakawa (2013), Japan is a so-called high-context society where communication often is nonverbal and meanings context-dependent. Many services are based on shared cultural understanding and this makes them impossible to implement abroad where a different kind of social interaction is required.

Despite the characteristic features that make Japanese PBS firms internationally uncompetitive, Japanese OFDI flows in non-manufacturing have increased in recent years. This trend is evident in Figure 1, which shows the top Asian receivers of Japanese FDI. The figure shows that the FDI to Asia
has been in an upward trend since 2005, with a minor interruption only in 2010 caused by the financial crisis. On a national level, most of the FDI has been directed towards China, but Singapore is another major receiver of Japanese FDI. Singapore is an interesting case considering its geographical size in comparison to China. The country has been the main receiver of Japanese FDI in the ASEAN since 2007 as a result of the ambition of Japanese service companies to make Singapore a hub in Southeast Asia from where they can supply services to the entire ASEAN region (Hamanaka, 2011). Notable is also the rise of OFDI in services to India, which coincides with Japanese investments in manufacturing in the country.
3 Literature Review

In this section relevant literature is reviewed to provide the theoretical base for the study. First, general internationalisation theories are presented, before reviewing theories specific to service firm internationalisation, PBS and Japanese PBS firms. Next, a review is made of theory on the location of PBS. The section is closed with a presentation of the conceptual framework of the study.

3.1 Theory on Internationalisation

Extensive research has been conducted over the years to explain the internationalisation of business activities. Efforts have resulted in a multitude of theoretical explanations concentrating on different aspects as to why firms operate in more than one environment. No theory is all-embracing and there has been wide disagreement between the different schools of thought. Together they provide different viewpoints helping researchers explain the internationalisation of business activities. In general, theory on internationalisation addresses the following questions (Krug and Daniels, 2008):

1. How can firms compete with local firms in foreign markets?
2. Why enter foreign markets through FDI and not through alternative modes of entry?
3. What determines the location of FDI?

It is beyond the scope of this paper to provide an exhaustive literature review on internationalisation theory. However, this section will briefly cover the major schools of thought on the internationalisation of business activities.

3.1.1 Economic approaches to FDI

Researchers have made attempts to explain internationalisation using various economic approaches. Early attempts were made by trade theorists such as Ricardo (1817), Heckscher and Ohlin (Ohlin, 1933), but more recent
contributions drawing inspiration from industrial organisation theory are those of Hymer (1976), Kindleberger (1969) and Caves (1971). Buckley and Casson (1976), Rugman (1981) and Hennart (1982) developed the internalisation theory. Other important economic approaches include the product life cycle theory of Vernon (1966) and the eclectic theory of Dunning (1980).

**PRODUCT LIFE CYCLE THEORY**

The product cycle theory was developed by Vernon (1966) in an attempt to find new explanations to the global structure of production and trade by considering other factors than comparative costs. Based on a study of American FDI Vernon suggested that production undergoes a number of stages in accordance with the maturity of the product. Initially a product is manufactured in the domestic market since that both allows flexibility and swift communication. Even if costs are lower elsewhere the monopolistic position of the firm reduces the need of engaging in price competition. However, as the product becomes standardised the importance of flexibility and communication decreases in relation to costs. Therefore, production can ultimately be expected to shift to foreign markets where costs are lower. Subsequently Hymer (1976) would show that firms must possess some kind of monopolistic advantages in order to successfully compete in foreign markets.

**THE SEMINAL WORK OF HYMER**

In response to the shortcomings of existing theories Hymer (1976), together with Kindleberger (1969) and Caves (1971) introduced new ideas on the nature and causes of FDI. Their ideas draw on industrial organisation theory, but are also associated with market imperfection theory and monopolistic advantage theory. According to the latter, firms are able to offset the disadvantages and costs that are associated with doing business in foreign markets by internalising operations in order to capitalise on monopolistic advantages possessed by the firm. To Hymer (1976) market power is the principal motivation why firms internalise operations when establishing foreign market presence. By maintaining control through internalisation competition may be suppressed, while in the same time rents may be derived from monopolistic
advantages, such as superior manufacturing process, innovation capabilities, know-how, economies of scale etc. Together these are the main determinants of FDI. Neoclassical theory, Hymer (1976), Kindleberger (1969) and Caves (1971) provided explanations to why firms are prepared to compete in foreign markets, but did not adequately address the issue why FDI was preferred to other modes of entry. Internalisation theory is one of the theories that were developed in response to this knowledge gap.

INTERNALISATION THEORY

Internalisation theory was developed by Buckley and Casson (1976), but was further developed by Rugman (1981), Hennart (1982) and Casson (1983). The theory postulates the existence of imperfect markets and is closely associated with transaction cost economics according to which firms organise activities to minimise the cost of exchanges between agents. Exchanges can occur both internally and externally, but when transaction costs are high it is more efficient to keep them internalised. Hence, firms have incentives to develop internalised markets resulting in FDI and the creation of MNEs (Buckley and Casson, 1976). In other words, by maintaining control over firm-specific assets through FDI transaction costs are minimised while economic rents are maximised.

THE ECLECTIC PARADIGM

Dunning (1980) drew heavily on the ideas of the other theories and integrated their different insights in developing his eclectic theory on international production. Importantly, Dunning (1980) emphasised the importance of location-specific advantages as a determinant to the location of FDI. According to the eclectic theory, or OLI-model as it is commonly known, a firm will only engage in international production when three conditions are present.

First, a firm must possess certain unique ownership-specific advantages (O). Just as Hymer (1976) argued competition in foreign markets is associated with additional costs and in order to be successful the firm must have access to unique assets that allow the firm to suppress competition while also increasing
profitability. Such assets may take the form of monopoly advantages (e.g. trademarks, patents or access to limited resources), superior technology and knowledge, organisational skills, or advantages related to firm size and market power (e.g. economies of scale and scope).

Second, there must be location-specific advantages (L) that make it more advantageous for the firm to exploit the ownership-specific advantages in foreign markets. There are several different kinds of location-specific advantages. Economic benefits include access to resources, markets, production and transportation costs, infrastructure etc. Moreover, government policy may provide beneficial conditions under which the firm can engage in FDI. The same is true for social advantages, for instance in terms of culture.

Third, ownership-advantages can be exploited by the firm itself, but they can also be sold or leased to firms in foreign markets. However, a firm will internalise (I) their use when the benefits of doing so outweigh the disadvantages. This will allow the firm to exploit their full value in conjunction with existing location-specific advantages. Uncertain environments, for instance in terms of price, quality, availability or property rights will increase the benefits of internalisation. Internalisation is also common in the case of knowledge-intensive operations such as R&D. Altogether, the solid foundation of the eclectic paradigm made it a very useful theory for understanding the internationalisation of firms.

3.1.2 Behavioural approaches

In addition to economic approaches various process theories have been developed to explain the internationalisation of firms. Notably the pioneering work of Johanson and Wiedersheim-Paul (1975) led to the emergence of a new school of thought focusing on behavioural aspects of firm internationalisation.

The Uppsala school of internationalisation

Johanson and Vahlne (1977) formalised the early ideas of Johanson and Wiedersheim-Paul (1975) into what became known as the Uppsala School of Internationalisation. According to this theory a firm will follow a sequential internationalisation processes driven by incremental learning through the
accumulation of experience. The theory also advances the concept of psychic distance, referring to factors that prevent the flow of information between the firm and its markets. Differences in culture, business practices, education and the like are examples of such factors. As new knowledge is acquired the psychic distance will decrease influencing both the mode of entry and the selection of markets.

**Network approaches**

In response to increasing levels of international interdependence between firms another stream of research has tried to explain internationalisation by applying a network approach. Two notable contributions are those of Johanson and Mattsson (1988) and Johanson and Vahlne (2009).

According to Johanson and Mattsson (1988) firms are embedded in networks that completely influence their internationalisation processes. Firms hold network positions and these are characterised by relationships to other firms. The model suggests that internationalisation is an evolutionary process whereby firms develop new positions to firms in foreign networks. The network positions of firms can be developed by building new relationships, developing existing relationships or integrating positions in different national networks. An important conclusion is that it is the position of the firm that drives internationalisation. Four positions are identified depending on the degree of firm and network internationalisation: the early starter, the lonely international, the late starter, and the international among others.

Johanson and Vahlne (2009) published a revised version of the Uppsala model where the network characteristics of the modern business environment were taken into consideration. The model is closely associated with the original model, but emphasises that market commitment decisions, as well as the generation of new knowledge and experience, take place within a network context. This in turn will affect the current network position of the firm, as well as their knowledge and opportunities. Thus, firm internationalisation is an interactive and dynamic process between mechanisms of state and change where firms will try to improve their network position as well as their knowledge and opportunities. Outsidership from relevant networks
is just like psychic distance a source of uncertainty that will influence the internationalisation process.

### 3.1.3 International New Ventures and the Born-Global Approach

Behavioural theory suggested that internationalisation best was understood as a gradual process characterised by incremental learning. However, by the end of the 1980s another school of thought centering around the ideas of international entrepreneurship started to emerge in order to explain why some firms were international right from or very soon after their inception. Seemingly, international activities were not reserved for the large, mature and resource-rich firms that often had been the target of previous research on internationalisation. New forces driving the internationalisation of firms appeared to be at play. This phenomenon of early internationalising firms has become known under a number of different names. The literature mention global start-ups, born globals, and international new ventures (Autio, Sapienza, and Almeida, 2000; Knight and Cavusgil, 2004; Oviatt and McDougal, 1994), but these terms are largely synonymous.

In developing their seminal theory on international new ventures (INVs), Oviatt and McDougall (1994) noted that an increasing number of markets internationalise as a consequence of changes in the international business environment. Market homogenisation and technological advances had made the leap to foreign markets less dramatic, enabling new ventures in possession of valuable unique assets to compete globally regardless of the resource constraints that often characterise them. In sum, international new venture theory may be better than traditional theories to explain internationalisation in situations where changes to the business environment have been profound, for instance in terms of technology and firm capabilities. For instance, this appears to be the case in many knowledge-intensive industries.

The theory of Oviatt and McDougall (1994) postulates the existence of four necessary elements for sustainable INVs. First, as in the case of traditional theories there must be an internalisation of some transactions. Second, due to their common lack of resources INVs tend to rely on alternative governance
structures to control their assets. Third, there are location advantages of utilising assets in foreign locations. Fourth, the assets must also be unique to constitute a source of sustainable competitive advantage. How the four necessary elements are manifested in INVs is dependent on the nature of the organisation. Based on an organisation’s number of cross-border value chain activities and how many countries that are involved, Oviatt and McDougall (1994) establish a four-class typology of INVs: export/import start-ups, multinational traders, geographically focused start-ups and global start-ups.

Another conceptualisation of INVs is provided by Madsen and Servais (1997). Their study offers a number of propositions about the nature of INVs and models the propensity of their existence on conditions associated with the founder, the organisation, and the environment. They conclude that the evolution of INVs may well be in accordance with stage models like the Uppsala school (Johanson and Vahlne, 1988). Knight and Cavusgil (2004) also emphasise the important role of an organisational culture supporting innovation, as well as knowledge and capabilities behind the phenomenon of INVs.

3.2 Theory on service firm internationalisation

The service sector is of significant importance to many developed and developing nations. In several industrialised nations it is of particular importance due to its contribution to both GDP and employment (Ström, 2005; Lommelen and MatthysSENS, 2005). The sector is also dominant in the amount of global M&As, accounting for almost 50% in 2009 (Li, Tether, Mina and Wennberg, 2011). Nevertheless, despite the prominent position of the service sector in the global economy research on the internationalisation of services has not been extensive (Merchant and Gaur, 2008). Research concerning service internationalisation is, in comparison with the case of the manufacturing sector, still to a considerable degree insufficient, exploratory and mostly fragmented (Lommelen and MatthysSENS, 2005; Li et al., 2011; Peinado and Barber, 2006). However, the dearth of theoretical work on service internationalisation is a controversial issue. One set of researchers (e.g. Boddewyn et al. 1986; Buckley et al. 1992) argue that there is no need of theoretical
conceptualisations especially designated to services, since they already are covered by established theories on internationalisation. Other researchers (e.g., Erramilli and Rao, 1993) disagree, pointing out that certain differences between services and manufacturing can be distinguished. Grönroos (2007) refers to one such difference by emphasising the importance of how a service is experienced during consumption. The experience of a service itself is a critical determinant to the success of the service delivery, but this is not the case for manufactured goods.

Enderwick (2007) allies himself with Boddewyn et al. (1996) and Buckley et al. (1992), identifying four primary motives that explain why firms, both in manufacturing and services, decide to internationalise. Firms can be market seeking, cost oriented, efficiency seeking and creative asset seeking. These motives have become easy to implement due to the changes in the business environment that have occurred in the last two decades (Rodriguez and Nieto, 2012; Enderwick, 2007; Netland and Alfnes, 2007; Aharoni and Nachum, 2000; Brock, 2012; Miozzo and Soete, 2001).

For service firms in particular, the promotion of FDI has played a central role in the internationalisation process. The fact that services, in comparison to manufactured goods, are not tradable has required service firms to use FDI as the main mode to access foreign markets (Mallampally and Zimny, 2000). Furthermore, having local affiliates is of significant importance when proximity to clients is required. Possible regulatory problems demanding local presence can also be avoided in this manner (Mallampally and Zimny, 2000).

Additional support to the statements of Boddewyn et al. (1996) and Buckley et al. (1992) can be found in the linkage between manufacturing and service firms. One of the more traditional ways for service firms to internationalise has been to follow manufacturing clients abroad (Weinstein, 1977; Nachum 1999). This approach has been particularly common among smaller service firms (O’Farrell and Wood, 1994). Apart from assisting clients internationally, the establishment of foreign operations has also enabled service firms to expand their business to new clients in the host markets (Mallampally and Zimny, 2000). Furthermore, several other factors, such as resources (Hitt et al. 2005), government regulations and capital intensity (Menzies and Orr, 2013), exist that have influenced and encouraged service firms to engage in
international activities.

3.2.1 INTERNATIONALISATION OF PBS

The absence of adequate research on service internationalisation (Merchant and Gaur, 2008) has likewise affected the research conducted on PBS internationalisation theory, primarily in the deficiency of an commonly established internationalisation theory for this subgroup of service firms. As a result, miscellaneous theories (Abdelzaher, 2012; Asakawa et al 2013; Li et al. 2011; Hitt, Bierman, Uhlenbruck and Shimizu 2005; Netland and Alfnes, 2007; Rodriguez and Nieto, 2012; Welch, 2005) have originated with the motive of handing their own explanations to the underlying motives of PBS internationalisation. The majority of these theories operate as complements to already existing general theories based on increased liberalisation and promotion of FDI, globalisation, blurring of industry boundaries, developments in ICT and knowledge intensity (Enderwick, 2007; Aharoni and Nachum, 2000; Miozzo and Soete 2001) that apply for both services and manufacturing.

Among them is Hitt et al. (2005), who emphasise the importance of resources in the form of human capital (Hitt et al. 2005; Li et al. 2011) and relational capital as an important input in the internationalisation of PBS firms. In the study, one of the more distinguished conclusions drawn by Hitt et al. (2005) is that while relational capital with corporate clients is positive (solely when interconnected with strong human capital) for the overall firm performance, a similar negative effect can be traced between relational capital with foreign government clients.

Welch (2005) on the other hand touches upon the “client following” relationship with emphasis on multilateral institutions rather than manufacturing firms. The study demonstrates a positive correlation on the relationship between consulting firms and multilateral institutions in terms of the impact they have on the internationalisation of consulting firms. Collaboration in regard to innovation with foreign firms is another field of interest which should not be overlooked since studies (Rodriguez and Nieto, 2012; Castellacci, 2010) there have displayed the positive effects that innovation enhancement through collaboration can have on the internationalisation of PBS firms.
Another interesting internationalisation theory is provided by Abdelzaher (2012) who refers to the internationalisation of PBS firms as a spider web-like expansion process. According to Abdelzaher, numerous factors, such as cultural, geographic and institutional distance, function as barriers which aggravate the quality of services delivered and negatively affect the internationalisation. Since PBS firms demand close embeddedness within their host market in order to succeed, these forms of barriers only complicate matters. Nevertheless, as mentioned previously, a combination of strong human capital and relational capital can help to facilitate the process (Hill et al. 2005). Thus the probability of a strong embeddedness through the use of relational capital becomes greater with a country that shares a similar culture. Hence, PBS firms opt to internationalise carefully to surrounding countries before engaging into the next “layer” of neighbouring countries.

In addition, the importance of network relationships should not be overlooked. This is particularly true when it concerns successful internationalisation to emerging markets (Freeman and Sandwell, 2008). Freeman and Sandwell (2008) found that several existing barriers in the form of language, face-to-face communication, culture, work practices and government regulations together with important elements such as orientating, timing and positioning could all affect the network relationship creation negatively and as result impede the internationalisation process.

**Internationalisation of Japanese PBS**

In comparison to other industrialised countries, the Japanese service sector’s contribution to its own economy in terms of GDP and employment share has over a longer time period been low (Ström, 2005; Ono, 2001). Similar low levels of Japanese service contribution have also been noticeable in the international context (Ström, 2005; Asakawa et al. 2013; Ono, 2001). This has created a matter of concern in the country (Asakawa et al. 2013; Fukao 2010) considering the important role that services tend to display in industrialised countries. Consequently, a wide pool of theories has emerged with the aim of providing their own explanation to the problem (Asakawa et al. 2013; Tanaka, 2011; Fukao 2010; Endo and Ozaki, 2011).
One such theory concerns the productivity of Japanese service firms (Tanaka, 2011; Fukao 2010). Traditionally, Japanese service firms have registered lower productivity levels than their Western counterparts (Ström, 2005). However, distinct differences in terms of productivity among Japanese service firms have also been observed. In a study conducted by Tanaka (2011), Japanese service firms were categorised into service MNEs and non MNEs, where the service MNEs displayed, just like manufacturing MNEs, higher productivity levels than their non MNE counterparts. Furthermore, Tanaka (2011) who also used the study to look at productivity and service MNEs and how it correlated with the degree of foreign engagement, concluded that service MNE firms with higher productivity would invest into more markets than less productive. In addition, just like manufacturing MNEs, service MNEs would endure the same huge costs that occur when internationalising, but in comparison to manufacturing MNEs, only a small group of them would manage to cope with those challenges.

Another area concerns the importance of investments in information and communication technology (ICT) as a significant input that can contribute to innovation in production processes (Fukao, 2010). However, since 1995 Japan has experienced stagnation in this field, primarily due to slower accumulation of ICT capital. Moreover, a preference for customer serviced ICT systems instead of packaged in order to avoid business reorganisation and training of workers has only added to the obstruction regarding the improvement of service productivity. Fukao (2010) continues on addressing other impediments, such as the rapid increase of part-time workers in some service sectors (finance, information services, telecommunication and retail) and the Japanese service firms’ reluctance to invest in them, which eventually creates a decline in the human capital accumulation. As previously mentioned in the PBS internationalisation section, a strong human capital (Hitt et al. 2005) is crucial if opting to internationalise successfully.

While Tanaka (2011) and Fukao (2010) compare productivity levels between Japan and other industrialised countries as well as examine numerous obstacles to successful internationalisation, Endo and Ozaki (2011) study Japanese service firms that have already internationalised. The primary focus of the study regards the relationship between multinationality and perfor-
mance in service firms. According to Endo and Ozaki, Japanese service firms need to conduct a comparatively large international expansion in order to reap the benefits that result from newly accumulated capabilities and the leveraging of firm-specific advantages, if wanting to exceed the initial costs of liability of foreignness and the launching of new subsidiaries. A problem for Japanese service companies might be that a good number of them have simply not internationalised in the required amount needed and have therefore experienced internationalisation more as a burden than an opportunity for additional growth and profitability.

More recent research (Asakawa et al. 2013) has tried to map the different Japanese service sectors across two dimensions, customer interface complexity and process embeddedness. The former one can be explained as something that includes “shared mental models and frames about various aspects of the service delivery system, and about what constitutes value for customers”. Considering the cultural distinctiveness of Japan compared to other countries (Asakawa et al. 2013), service companies which display a high degree of customer interface complexity are less likely to internationalise successfully. The latter one, process embeddedness, concerns the degree to which inputs are used within a particular home country context when producing the service. A service firm will fail to internationalise successfully when the process embeddedness is high due to a high degree of used inputs. Hence, those service firms which display a high degree of both customer interface complexity and process embeddedness are bound to experience internationalisation more problematic than their counterparts.

Despite the hampering attributes of Japanese service firms and their environment that obstructs them from successfully internationalising, another equally important factor in this field must not be neglected, and that is the role of the Japanese government. Many Japanese service industries (telecommunications, banking, insurance, transportation, utility and construction) have since the end of the Second World War been heavily regulated (Ono, 2001). Despite initial deregulation measures in the 1970s in finance and telecommunications, regulations were still ordinary in certain service industries until the turn of the millennia, both against domestic and foreign service firms. As a result that created a stream of non-competitive Japanese companies in
several sectors (Ono, 2001). According to Ström (2005), the heavy regulation might have been one reason behind the low productivity displayed in Japanese services.

3.3 Theory on the location of PBS

There is wide agreement in the literature that PBS develop in accordance with clear spatial patterns where activities become clustered in major urban regions (e.g. Bryson and Rusten, 2006; Glückler, 2007; Rubalcaba, 2013). Much research has been conducted with the purpose of explaining the tendency of economic activities to agglomerate in certain areas and traditional theory suggest that the clustering of economic activities is the result of external economies, for instance in the form of low transaction costs (Wernerheim and Sharpe, 2003). However, more recent theoretical work within the field of economic geography has shifted focus away from distance and transportation costs and emphasised location-specific aspects of markets and inputs (Wernerheim and Sharpe, 2003). Voices have been raised that many arguments of traditional agglomeration theories are inapplicable in the case of PBS (Keeble and Nachum, 2002; Glückler, 2007).

Studies on why PBS are concentrated to large urban areas have mostly focused on supply and demand factors (Rubalcaba, Gallego, Gallo and Gerrido, 2013). For instance, as far as the supply side is concerned, large urban areas offer access to information and global networks, links to cluster firms, knowledge spillovers and highly qualified labour. To PBS firms access to a well educated workforce is of special importance due to its impact on the level of success (Hermelin, 1997). Among the demand factors geographical proximity to clients is often cited as a major determinant to the location of business services. It is of special importance for service firms primarily due to the nature of services and the need of face-to-face interaction during the stage of service delivery (Ström, 2004). However, Hermelin (1998) argues that there may be a need to reconsider the role of geographical proximity, because all activities do not necessarily require permanent face-to-face contact. Other factors beyond those of supply and demand are likely at play, but research in this area is relatively scarce (Rubalcaba et al., 2013). Glückler (2007) noted
the importance of geographical reputation and the ability of cities to improve the trans-local business opportunities of PBS firms. Lastly, Hermelin (1998) argues that the establishment of the firm and its subsequent history also are important determinants to the location of PBS.

Despite the trend of services to conglomerate to major urban areas, it is important to note that the service intensity in the global economy has been growing on multiple urban levels (Bryson and Rusten, 2006). A hierarchy exists among cities of different sizes where some “cater to regional or sub-national markets; others cater to national markets and yet others to global markets” (Sassen, 2002, p.22). For instance, this is evident in the case of international banks in Pacific Asia, where a three-tier hierarchy is prevalent (Haga, 1997). Banks from certain cities, e.g. Tokyo and Seoul, act as network leaders and coordinators, while affiliated banks in other cities in the region, mainly ASEAN capitals, act as intermediaries. Lastly, smaller offices in cities in China and Southeast Asia integrate specific local markets.

Table 3: Factors Affecting the Location of PBS

<table>
<thead>
<tr>
<th>Supply Factors</th>
<th>Demand Factors</th>
<th>Other Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to clients</td>
<td>Factor endowments</td>
<td>International trade profile</td>
</tr>
<tr>
<td>Economic development</td>
<td>Accessibility</td>
<td>Mobility factors and trade barriers</td>
</tr>
<tr>
<td>Market dynamism</td>
<td>Innovative environment</td>
<td></td>
</tr>
<tr>
<td>Cultural and social environment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Rubalcaba, Gallego, Gallo, and Garrido, 2013

Rubalcaba et al. (2013) have identified and classified the most commonly quoted factors explaining the location of business services in large urban areas (cf. Table 3). They did not only consider supply and demand factors, but paid attention to other market factors as well. Among the demand factors three key dimensions were identified: Access to clients, economic development and market dynamism. Among the supply-oriented factors four key dimensions were identified: factor endowments, accessibility, innovative environment and the cultural and social environment. Finally, among other market factors the importance of a city’s reputation and image was analysed. Two key dimensions were considered: the international trade profile, as well as mobility factors and trade barriers.
3.4 Conceptual framework

For a very long time Japanese PBS firms were able to operate in a business environment characterised by heavy domestic regulations, which inhibited foreign companies from entering the domestic market. Under the prevailing circumstances Japanese firms could safely rely on exports and the large domestic market in order to attain growth. The domestic PBS sector developed accordingly and by tradition an internalised structure of service provision was favoured where strong network relationships played a large role. The whole situation generated a relatively static competitive environment that did not encourage the internationalisation of stand-alone PBS. However, the Plaza Accord would constitute the onset of dramatic changes in the Japanese economy that would reshape the business environment. Parallel to this development the economic gravity in the world has gradually been shifting towards Asia where PBS are expected to constitute an integral part of future economic development. Theoretically, these developments should have created incentives for the Japanese PBS industry to increasingly engage in global activities.

Figure 2: Conceptual Framework

The conceptual framework for this study is depicted in Figure 2. We regard the adaption to new economic conditions as a dynamic process in which Japanese PBS firms are expected to take strategic actions to enhance their competitive position. As argued above, internationalisation is expected
to constitute an important element in this process. Ideally, the outcome of the strategic actions will create a feedback loop in which strategies are re-assessed to further enhance the competitiveness of the firm.

To understand this dynamic process and the evolving nature of Japanese PBS industry five relevant areas are suggested and investigated in accordance with key concepts from the literature review in Section 3. First of all, an understanding of the fundamental internationalisation process of Japanese PBS firms needs to be established. What are the main drivers and motives and what is the preferred choice of location? Second, customer relationships are investigated to determine possible links to internationalisation strategies. In this regard the level of dependency on Japanese and foreign customers respectively is an important aspect. Third, what effect has the competitive environment in domestic and foreign markets on the internationalisation process? Fourth, business relationships are studied to understand how previously tight relations are developing. More importantly, have Japanese PBS firms the capabilities and desire to build new network relationships? Finally, the service portfolio is of interest, since Japanese PBS firms traditionally have offered a very wide range of services. A more competitive business climate should induce companies to focus on core capabilities.
4 Methodology

This section provides detailed information on the methods that were applied in this study. First, a presentation of the selected research approach is given. Next, the research design and the collection of empirical data are discussed. This is followed by a discussion on the analytic procedures and the validity and credibility of the results.

4.1 Research Approach

Fulfilling the purpose of this study involves the exploration of firm responses in a changing business environment. The nature of these responses can be regarded as a dynamic process, where the outcome ultimately is linked to the business performance and future prospects of Japanese PBS firms in Asia. In order to increase our understanding of the evolving nature of Japanese PBS firms it was deemed necessary to discuss industry-specific issues directly with firm representatives and industry experts. Therefore, a qualitative research approach was considered appropriate because it involves exploring “social phenomena with a view to gaining interpretive understanding” (Collis and Hussey, 2009, p. 57). The study is exploratory in the sense that it attempts to uncover new trends in the internationalisation of the Japanese PBS industry. Based on the findings an attempt is made to assess the future prospects of Japanese PBS in Asia by analysing the present situation in conjunction with literature on PBS and internationalisation.

4.2 Research Design

After careful consideration the decision was made to employ a case study methodology. There are different ways of designing case studies (Yin, 2003), but for the purpose of this study a holistic multiple-case study design is used. By collecting evidence from multiple cases a single phenomenon is explored, i.e. the evolution of the Japanese PBS industry in terms of internationalisation. One of the defining features of a case study is triangulation (Ghauri, 2004). Therefore, case study data is triangulated through interviews with industry experts and representatives of foreign PBS firms operating in Japan to provide
a more complete picture on the evolution of the Japanese PBS industry. For instance, it was of interest to speak with representatives of non-domestic PBS firms in Japan due to their potential insight and knowledge about the Japanese PBS industry.

4.2.1 Research unit and research sample

The unit of analysis in this study are Japanese PBS firms. However, it is important to recognise that substantial differences exist among different types of PBS firms. This may present firms of different sub-industries with distinct opportunities and challenges in terms of internationalisation. Nevertheless, PBS firms can also be expected to exhibit certain common features. This justifies a broad study of the Japanese PBS industry and for this reason PBS firms of different types will constitute the unit of analysis in this research.

The target population for this study is Japanese PBS firms where PBS is defined as legal services, auditing services, banking services and consulting services. The ambition was to have all these different service types reflected in the final sample. The Toyo Keizai Database (Toyo Keizai Shinshutsu Kigyo Soran) provides an extensive record of Japanese firms operating in foreign markets and could therefore be used as the sampling frame. Attempts were made to contact PBS firms on this list through email but without any greater success. It turned out the nature of the Japanese business environment made it very difficult to from Sweden use this database to arrange interviews with companies in Japan. Therefore, to retrieve the final sample we highly had to rely on snowball sampling. Networks were also utilised to get in contact with foreign PBS firms and industry experts.

Since the interviews were to be conducted face-to-face in Tokyo during a three-week period in March-April 2014, the size of the final sample was significantly limited. Due to the difficulties of arranging interviews from Sweden only four interviews had been scheduled before arrival. The final sample of interviews is shown in Table 4. Eventually, interviews were held with 15 individuals of 13 different firms and organisations. However, only data from 11 interviews could be used in the study.

The final sample included representatives speaking for one Japanese law
firm, one Japanese consulting, one Japanese auditing firm and two Japanese research institutes. Based on these interviews mini cases were constructed for the auditing firm, one research institute and the consulting firm. In addition, valuable data was also collected through interviews with three foreign PBS firms and two industry experts.

Table 4: The Final Sample of Interviewees

<table>
<thead>
<tr>
<th>Resp.</th>
<th>Interviewee Position</th>
<th>Nationality</th>
<th>Industry</th>
<th>Firm Origin</th>
<th>Date</th>
<th>Duration (min)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Foreign Law Consultant</td>
<td>American</td>
<td>Legal</td>
<td>US</td>
<td>8/4/2014</td>
<td>60</td>
</tr>
<tr>
<td>B</td>
<td>Foreign Law Consultant</td>
<td>Canadian</td>
<td>Legal</td>
<td>Japan</td>
<td>31/3/2014</td>
<td>60</td>
</tr>
<tr>
<td>C</td>
<td>Chartered Accountant, Partner</td>
<td>Canadian</td>
<td>Auditing</td>
<td>Netherlands</td>
<td>8/4/2014</td>
<td>60</td>
</tr>
<tr>
<td>D</td>
<td>Researcher, Service Marketing</td>
<td>Japanese</td>
<td>Expert</td>
<td>Japan</td>
<td>7/4/2014</td>
<td>60</td>
</tr>
<tr>
<td>E</td>
<td>Consultant, Partner</td>
<td>Swedish</td>
<td>Consulting</td>
<td>Sweden</td>
<td>15/4/2014</td>
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<td></td>
<td>Technical Development</td>
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<tr>
<td>H</td>
<td>Senior Vice President</td>
<td>Japanese</td>
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<td>7/4/2014</td>
<td>50</td>
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<tr>
<td>I</td>
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<td>2/4/2014</td>
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<td>J</td>
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<td>Japan</td>
<td>10/4/2014</td>
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<tr>
<td>K</td>
<td>Partnership Development Manager</td>
<td>Japanese</td>
<td>Consulting*</td>
<td>Japan</td>
<td>10/4/2014</td>
<td>70</td>
</tr>
</tbody>
</table>

Note: All interviews were conducted face-to-face in Tokyo. Respondent F was interviewed in Yokohama. *Respondent J and K are employees of the same consulting firm. Additional information is provided in the Appendix.

4.2.2 Collection of Data

The collection of data involved both primary and secondary data. In order to obtain a more profound understanding of the internationalisation of the Japanese PBS firms, their difficulties, the structure of the domestic market, client-supplier relationships and Asian service growth, secondary data was gathered over an extensive period of time in the form of academic articles, studies and reports. This data would primarily form the base for the literature review.

Different methods are available for collecting primary data, but the interview is one of the most important methods for collecting data in case studies (Yin, 2003). In this study semi-structured interviews were used because a certain level of freedom was necessary to uncover information on recent developments in the Japanese PBS industry. Semi-structured interviews would also allow flexibility when discussing the industry with foreign PBS firms and
industry experts. This was desirable since we wanted to hear and explore the firms’ and respondents’ views on the Japanese PBS industry.

**Interview Design**

The interview design was made in such a manner that it would provide insights to the dynamic process occurring within Japanese PBS firms. In the conceptual framework, five areas were suggested for that purpose. Hence, the same five areas came to form the basis for the interview protocol that was developed for Japanese PBS firms. This implied that we wanted to understand the main drivers and motives behind the internationalisation process of Japanese PBS firms, the link between customer relationships and internationalisation strategies, as well as the effects of foreign and domestic competitive environment on the internationalisation process. Furthermore, we wanted also to observe the development of previously tight business relationships, the possibilities of establishing new relationships and whether changes had been noticed in the composition of the service portfolio, which usually has been characterized as one containing wide range of services.

The same interview protocol was used for interviews with Japanese PBS firms, foreign PBS firms and industry experts. This approach was considered suitable since the interest of the interviews always was Japanese PBS firms and we aimed at gaining insights on the development of the Japanese PBS industry. The detailed questions aimed for Japanese PBS firms gave inputs to fairly open discussions concerning the five areas of interest. Also, it was difficult to know beforehand how much detailed information that could be retrieved. Hence, we were of the opinion that holding an open form of discussion would allow us to gain the best results and insights on the nature of the Japanese PBS industry.

**The Conduct of the Interviews**

All the interviews were conducted in a semi-structured manner. Based on the respondents’ own initiatives the interviews took place at their offices. All interviews were held in meeting rooms in a silent environment without
being disturbed. At the start of each interview the respondents were asked for permission to record the interviews for later reference. They were also informed that all answers would be treated confidentially and that anonymity was guaranteed. This was seen as a necessary step in order to be able to record the interviews.

The interviews were conducted in a relaxed manner, usually started with a brief informal chat on the topic of the study. The next step was to inform the interviewees a little bit more about the study and what we had so far recovered from the theoretical part regarding the subject. After that we would start of by allowing them to present themselves and their background. When that part would be over, we would primarily start of by talking and asking questions about the internationalisation of the Japanese PBS firms. In order to retrieve as much information as possible, we would allow the interview to go in its own direction, rather than limit the interviewees to our interview sheet and risk losing out on important information. Therefore they were allowed to freely express themselves and give their opinions regarding the subject as much as possible, even if that meant jumping from one part to the other.

Nevertheless, when they had provided us the answers, we tried to take a look at the interview sheet in order to confirm that all parts had been covered. If not, we would follow up with questions concerning the missing areas. Most of the interviews had a duration time of 60 minutes, where in the majority of the cases, the time limit had been proposed by them. Occasionally it would happen that the interviews would proceed longer than planned, primarily due to the big interest expressed by the interviewees regarding our subject. The interviews would normally end up with them following us the entrance door of the work floor or to the elevator, where we would stand for a couple of minutes and further talk about the subject and also about its finalisation. During that time they would also ask us to send them a copy because they were eager to see what our final results would be. They, especially the foreign interviewees, genuinely showed great interest in the subject because they seemed to be more aware of the problems that the Japanese PBS firm industry was facing than the natives.
4.2.3 Analytic Procedures

According to Yin (2003), analysis of case study evidence is particularly difficult because it is one of the least developed and most difficult aspects. Very often, researchers tend to begin their case studies without having a clear picture of how the evidence should be analysed. For this study however, such a clear picture was initially present. Nevertheless, early on in the thesis process it became apparent that the theoretical framework would heavily influence the analytical part, as it indicated that the initial plan of analysing the Japanese PBS firms as a single group would be difficult to carry through.

With the initial plan not anymore useful, it was decided that we would continue with the thesis but wait with the analytical process until the interviews had been conducted. When that part was over and we had transcribed them manually word-for-word, as recommended by Merriam (2005), it became evident how to proceed. Since the interviews in Japan were conducted with people who operated only in certain of the PBS industries such as the legal, auditing, bank and consulting industry, a decision was made that the empirical data retrieved from them would function as own units of analysis, i.e. there would be four sub-industries to analyse. However, after further discussions, it was determined that due to the strong exhibited relationship between banks and research institutes in the interviews, it would be more suitable to merge the two into a single sub-industry.

The approach of analysing the sub-industries instead of the Japanese PBS industry as a whole facilitated better the understanding of the dynamic process concerning the internationalisation of the Japanese PBS firms. It made it easier to see the similarities and differences among the Japanese PBS firms from the different PBS industries as well as their challenges and opportunities.

4.3 Assessment of the Study

4.3.1 Validity and reliability

Measures were taken to increase the validity of the study. Effort was made to include as many sources of evidence as possible. However, construct validity
would have been higher if more companies had participated in the study. As outlined in Section 4.3.2 below, data triangulation helped to overcome this limitation.

Case studies often suffer from issues with external validity (Yin, 2003). Multiple-case studies in particular rely on replication logic in order to make analytical generalisations about the phenomenon under study. Since PBS firms in different sub-industries can be expected to face different opportunities and challenges in terms of internationalisation the question arises if such PBS firms can be regarded as replicable cases. However, as previously argued they also share common characteristics. Nevertheless, this is still remains a validity issue.

The replication logic is also affected through the use of semi-structured interviews. One drawback of this data collection method is that the interview pattern will differ from time to time. The course of the interview and follow-up questions will be affected depending on the answers of the interviewees. This might create an imbalance in how different issues are explored and constitutes a reliability issue. However, effort was made to maintain interview focus on the primary areas of interest.

4.3.2 LIMITATIONS

The study has a number of limitations. First of all, the limited time in Tokyo and the difficulties of finding Japanese PBS firms willing to participate in the study generated a very small number of cases to base the study on. Case replication is an important feature of multiple-case studies that affect the certainty and the richness of the results (Yin, 2003). Ideally, it would have been preferred to have more Japanese PBS firms in the study. Nevertheless, data obtained through interviews with industry experts and foreign PBS firms in Japan complements available case data to satisfactory fulfil the purpose of the study. However, data from these sources became more important than initially planned.

Second, the language proficiency of Japanese managers were at some points problematic since it made it difficult to have exhaustive answers on specific issues. For instance, in some cases questions had to be rephrased
to be comprehensible. Although the interviews were primarily conducted in English, Japanese was used in some cases to clarify certain topics and answers.

Third, due to the limited amount of time available during the field study not much time was left for analysis, reflection and revision of interview questions between interview sessions. The time was further limited due to the intense work with finding interviewees.
5  **Empirical Findings**

This section presents the empirical findings from the interviews. Information on the interviewees is provided in Table 4 as well as in the Appendix. First, findings on legal services are discussed. This is followed by findings on auditing services, as well as finance, bank and consulting services. Findings on internationalisation, customers, competition and service portfolio are presented in connection to each service type. Mini cases are also presented regarding auditing and consulting services.

5.1  **Legal Services**

5.1.1  **Industry information**

According to Respondent A, the Japanese legal industry is dominated by four law firms commonly known as the *big four*: Anderson Mori & Tomotsune, Mori Hamada & Matsumoto, Nagashima Ohno & Tsunematsu, and Nishimura & Asahi. Each of these have approximately 300-450 employees. They in turn are followed by a second tier of law firms employing around 100-250 people. With the exception of Mori Hamada & Matsumoto, the *big four* were all founded in the early 1950s and 1960s. From the time of their foundation until the mid-1980s government regulations prohibiting foreign law firms from entering Japan protected these firms from foreign competition. When regulations slowly began to change the Japanese law firms, such as Nishimura, employed only around 20-25 people. The subsequent influx of foreign law firms did not affect the bigger Japanese law firms due to the fact that they were doing pretty well on their own. Foreign law firms were unable to establish relationships with these and had to turn their focus toward picking up individuals or smaller Japanese law firms as partners. As a result, the larger Japanese law firms became the *big four*, while the medium-sized firms merged with foreign law firms. Since the 1980s, the *big four* have not only seen their staff increase by ten times, but they have also started to internationalise due to a primarily shrinking domestic market.

Apart from that, the educational system has also undergone major changes in recent years, which have changed format of legal education in Japan. The
country has abandoned its single law school, the national law school, in favour of the American style private law schools. According to Respondent A, this has been done primarily under the pressure of the Japanese business community who not only wanted more lawyers (before the change only 300 lawyers graduated per year in Japan), but they also wanted lawyers with more diverse backgrounds in terms of education. As a result, nowadays some 2000 students graduate law school each year. However, the collapse of Lehman Brothers and the aftermath of the financial crisis has created an oversupply of lawyers, which in turn has created difficulties for the domestic law firms. This will be touched upon more in the following sections.

5.1.2 INTERNATIONALISATION

The Japanese law firms are internationalising. However, they are experiencing several challenges that obstruct them from successfully internationalising. According to Respondent B, one of the challenges is how Japanese lawyers tend to look upon legal issues in comparison to foreign lawyers. While foreign lawyers will try to help their clients not only to achieve their legal goals but also their business goals, Japanese lawyers will have a more limited view of their role, which tends to make them more technical and academic, something which frustrates their foreign clients. The Japanese lawyers are simply put not flexible enough. They do not seem to understand that legal issues interact with business issues, that the two of them make a total package (Respondent B). According to Respondent B, Japanese lawyers see the law as something that must be obeyed: "The Japanese lawyer will say: no you can't do that, while the American lawyer will say: well there is this set of rules, let's see how we can work around them." (Respondent B).

Another obstacle is the "client-following" approach, i.e. that Japanese law firms will go abroad only when their Japanese customers decide to internationalise. Normally it will mean that they will open a small representative office with only two or three employees who are all Japanese and whose function is to be, as Respondent B put it, "essentially glorified translators and interpreters for Japanese companies" who themselves are reluctant of approaching the local law firms because they do not feel comfortable and do
not know which local law firms are good or not.

A third challenge is concerned with language. Since global transactions are documented by contracts based on techniques, structures and concepts that have been developed in the United States and England, it will mean that law firms will have to be able to provide sophisticated services in English. This is a problematic issue for Japanese law firms since the country is becoming more and more drained on a well-educated workforce who speaks English fluently, primarily because Japanese students are becoming more reluctant to the idea of studying abroad. According to Respondent B, it has to do with the fact that Japan is simply a more comfortable place to live in compared to 25 years ago. Back then people were poorer and more willing to go abroad, while nowadays they will say ”I will be going from a more comfortable place (Tokyo) to a less comfortable place (abroad), where there is more crime, more nastiness on the streets and the food is less good”. Respondent B further adds that when occasionally talking to Japanese colleagues regarding the problems they concur that the Japanese law firms are not global, if anything they are becoming less global. They are happy for the work that they get, but even they seem to realise that it is a short term thing, that buying a company in Indonesia does not make you more international. Therefore Respondent B thinks that the phenomenon of Japanese companies buying other companies in Southeast Asia and China is about to come to an end. Regarding the future prospects of the Japanese law firms, Respondent B concludes by stating that the best option for them would be to merge with an global actor and simply become the Tokyo office of that law firm.

Respondent A does not entirely concur with this last remark. According to Respondent A the Japanese law firms, the big ones, are simply too big for any global actor wanting to merge with them, ”They are too big frankly to be attractive for merger candidates for foreign firms. I mean if you were a 1000 person firm in London or New York why would you go and merge with a 300 or 400 person firm in Tokyo? Unless there was a lot of common areas of practice or something which I don’t think exists”. The future, according to Respondent A, may be one where the big Japanese law firms might start to split and divide apart on an intermediate level, where then some of the splitter groups might form alliances with some of the big global firms.
However, Respondent A does agree with Respondent B that the Japanese law firms are not fully global and that they face several challenges on that area, but Respondent A also states that Japanese law firms have only recently started to fully internationalise under the force of several influences that have occurred in Japan after Lehman Brothers collapsed. These influences, such as the collapse in the financial markets, real estate, availability in debt financing, the upsurge of the yen in the aftermath of the Tohoku earthquake and the transformation of the Japanese educational law system have all shaken the business community in Japan which has resulted in increased international activities. This increase has primarily been directed towards Southeast Asia and China. Respondent A says that before Lehman Nishimura would maybe have an office in Beijing or Shanghai and that would be it. After Lehman they have entered Singapore, Thailand, Vietnam, all throughout the region. Even though Respondent A was not fully sure why they were internationalising that much into Southeast Asia, one of the reasons could be the fact that the second 100 or 200 biggest Japanese multinationals were putting most of their investments in that direction and since the Japanese law firms clientele is more or less Japanese it would make logical sense for them also to also open up offices in that region.

Respondent C believes that the best option for the Japanese law firms would be to engage into that region (Southeast Asia) because the level of competition in those markets is not quite as high yet and also it is possible to establish a more competitive differentiation there than in the highly fished markets like the US or Europe. But the only way to achieve success in Southeast Asia is by partnering up with a local firm. They need to do that because they will need locals who know the language, understand the decision making process with local clients etc. When that is done the firms will have a competitive edge because they will be able to offer lower rates combined with a team of fluent bilinguals. If not, the companies will fail because ”the brand can only get you so far” (Respondent C).
5.1.3 Customers

The majority of the clientele among Japanese law firms is Japanese. As stated previously, some of the reasons behind that are uncertainty avoidance, language issues and different business approaches between Japanese and non-Japanese lawyers. Respondent B says that no Japanese law firm seriously thinks that it can compete with the big London firms or the big New York firms, and become truly global in that sense. The cultural and language barriers are simply too big obstacles to overcome. According to Respondent B, it is difficult to overcome a thousand years of history. The fact that you spend your entire childhood in Japan and educate yourself there makes you very wired as a Japanese, which later makes it very difficult to unwrap. Respondent B demonstrates this mindset by referring to one of his clients: "One of my client is a large Japanese bank and even now when you go to their New York office, and one of the Japanese picks up the phone they say moshi moshi (i.e. hello in Japanese). They just assume that whoever is calling them is another Japanese. They have no non-Japanese friends." According to Respondent B, Japanese law firms have over the last 25 years become even less globalised. Their clientele has become almost totally Japanese and what they do overseas is for the least sophisticated Japanese clients.

Respondent A on the other hand believes that the Japanese law firms can be successful in gaining new foreign customers. The way to go is to open up offices in local countries and make sure that you staff them with locals. "If they [the Japanese law firms] really expect real growth on a net basis they are going to have to get out of the rep office kind of thinking and bring into their legal services organisation local lawyers in these markets, otherwise they tend to be a rep office, a mailbox or something... otherwise they’re kind of...it’s unclear what legal services they can provide there that are really needed?" (Respondent A).

5.1.4 Competition

According to Respondent A, the Japanese law firms are 40 years behind the US law firms in that sense that they have only now in the post Lehman years started to specialise their operations. Prior to that Japanese lawyers
and Japanese law firms dealt with more or less litigation matters. However, the transformation of the educational law system increased the amount of lawyers substantially. That in combination with the Lehman crisis led to an oversupply of lawyers who had difficulties finding jobs. Many of them ended up at the legal departments of the corporate firms, something that was not previously considered as the traditional career path of a Japanese lawyer. As a result, the Japanese law firms were struck by this because the corporations started to do more and more of the legal work themselves, which made the Japanese law firms redundant. Therefore, they have responded like the American legal firms did in the 1960s and 1970s, by first of all specialising and also by focusing on disputes. Even though Respondent A has no statistical real way of saying that it has happened he nevertheless does add that the pressures are towards specialisation and if it has not swept everything before it yet, it will ultimately. And even though the Japanese law firms are lagging behind Respondent A believes that they can beat their Western counterparts, especially in Southeast Asia, ”I think if [Japanese law firms] are quick, they could outfly some of the big firms like Jones Day, because I think to a certain extent the big US firms may kind of have a dinosaur mentality, that sort of they are the only ones who know how to do this stuff when clearly it’s not true”.

5.1.5 Business Relationships

Relationships still play an important role in the Japanese legal industry. According to Respondent A, Japanese law firms have been doing what the US law firms did during the 1960s and 1970s, that is that they made sure to have someone there (overseas) who made their principal clients think that they were paying attention to them. But that model proved to be ineffective so most of the big firms, global firms, went beyond that. The Japanese law firms are stuck in between the two models. On one hand, they are going abroad because of defensive reasons, to secure the good client relationships that they already have with their Japanese customers. That normally manifests itself in Japanese law firms opening up boutique firms composed of only two or three employees. But as Respondent A stated earlier, if the Japanese law
firms wish to establish relationships with foreign companies abroad then they have to start staffing their local offices with locals.

Respondent B is not optimistic regarding the Japanese law firms’ chances of establishing successful relationships. As already mentioned previously Respondent B finds the language barrier as one of the main reasons. "One thing you should ask yourself in the back of your mind is if you were a foreign firm client and would bring a series of legal and tax questions to this person [Japanese lawyer], would you feel comfortable? Would you feel you can trust the person?”. Nevertheless, Respondent A states that the collapse of Lehman has led Japanese law firms to start creating networks abroad, and that that does not only include the big Japanese law firms but also the mid-sized ones. However, Respondent A also adds that there are doubts whether it is working for them financially or not.

5.1.6 Service Portfolio

As referred to earlier in this section, the Japanese legal industry is undergoing a huge transformation. This has meant that Japanese law firms have been forced to specialise and focus on disputes. However, according to Respondent A, the process has been sort of delayed in Japan because there were not a lot of lawyers who were specialised enough. But now there are, and therefore it is all going to be compressed into a shorter period of time. According to Respondent A, the process in Japan will take ten years or less. That is significantly less compared with the twenty years it took in the United States. Respondent A states that the Japanese law firms are already well into it. The tremendous pressure on the law firms will force them to further specialise and focus on disputes: "The bread and butter work is going away" (Respondent A).

5.2 Auditing Services

5.2.1 Industry information

The auditing industry in Japan is dominated by the four global auditing firms, KPMG, Deloitte, Ernst & Young and PWC. These firms managed to become
market leaders because of Japanese regulations which prohibited them from issuing auditing opinions about Japanese public firms, meaning that they had to tie up their operations with a domestic Japanese auditing firm if wanting to conduct that kind of work as well as gain market entry. Therefore, the result was that they all did that by forming a strategic alliance or engaging into some other kind of cooperative structure with the local auditing firms. However, the staff structure did not change. The majority of the staff at these big four global auditing firms in Japan remained predominantly Japanese. In some firms the staff is solely Japanese. Therefore, even though the market is dominated by the four global auditing firms they are in practice more or less actually Japanese firms that for the most part conduct business with Japanese customers.

5.2.2 Internationalisation

The Japanese auditing firms are not internationalising on their own. What they do instead is that in most cases, they assist their Japanese manufacturing client firms when they go abroad by turning to the local office of their strategic partner in that country, i.e. they use the partners network as a way of supporting their clients internationally. It is this network, the network of the big strategic partner and the three other global auditing firms that makes the internationalisation process difficult for Japanese auditing firms to handle on their own, because they do not possess an equally strong network themselves and therefore are not capable of competing with the big four. That is for instance why Tohmatsu decided in the 1980s to enter into a strategic alliance with Deloitte. At that time their big Japanese clients were expanding abroad and Tohmatsu found it necessary to engage into a strategic alliance with Deloitte in order to gain access to its global network. It was necessary for them to do that in order to be able to assist their Japanese customers abroad. Otherwise if not it would have been as Respondent C says "where do you begin? You don’t know the regulations, you don’t know anybody there, you don’t have any competitive value to bring to that customer than any other smart guy in the room".
5.2.3 Customers

The majority of the customers at the Japanese auditing firms are Japanese. However in comparison to other professional service industries, they tend not to give all their work to a single auditing firm. According to Respondent C it is because it creates a dependency and also that it creates a feeling that there may be a lack of competition, "sometimes I will get probably 80-90% of the work from customers that I have an excellent relationship with, but they are very clear with stating that their rule is that they need to get quotes from at least two service providers". Therefore even if firms have a good relationship with a client it does not necessarily have to mean that it is an exclusive one.

Another characteristic feature concerns the fees. Since decision making in Japan is very slow it means that when an approval has been made regarding the fee level it can be very difficult to come back and try to renegotiate it due to changes in expectations etc. According to Respondent C "it causes a lot of problems for them internally" if you back and subsequently increase the fees. However, when dealing with foreign clients it is much easier because you have a phased approach where you kind of negotiate the fees continually as the deal progresses.

5.2.4 Competition

The domestic competition is fierce according to Respondent C. That is due to the fact that all the firms that are operating in Japan are good. They have very well-trained and smart people working there and if a client comes to any one of them, the client will be treated accordingly, it will receive excellent service. Therefore Respondent C:s is that it is generally hard to win clients away from other firms, with whom they have a longstanding relationship with. In terms of foreign competition, primarily in Southeast Asia, it depends on the demand. In many countries in Southeast Asia the demand varies from country by country. In Indonesia for instance the colleagues are "extremely busy" says Respondent C.
5.2.5 Business relationship

The business relationships are still strong in Japan when it comes to auditing firms and their customers. The reasons for that is that they are first of all long-term customers, therefore the relationship bonds have been developing over decades, something that is very difficult to break. It is even more difficult to break considering what Respondent C said prior about all the companies being able to provide their customers well-trained and smart people who will provide them excellent service. Therefore there are no reasons for the customers to want to break up the relationships in order to find new companies to conduct business with and establish new relationships. Respondent C does add that there are differences in interpersonal interaction which are present when dealing with people from other cultures. However Respondent C believes that the fundamental characteristics are the same i.e. having a very high level of technical proficiency is necessary but not sufficient. If wanting to be successful in the client relationship it is important to wrap up that technical proficiency in an ability to solve the clients problems in a very straightforward way, and that is the same whether you are in Japan or overseas. As Respondent C says "just being a smart guy who understands the rules is no longer enough".

5.2.6 Service Portfolio

The service portfolios of the Japanese firms are becoming more diversified than specialised, at least that is the case when it comes to the relationship between the audit companies and their core customers. Many of the core customers at the Japanese audit firms are not only long-term customers but they make up a big part of the company’s revenues. Therefore the firms tend to have a more defensive approach where the main aim is to try to keep the core customers satisfied. That means that if a core customer decides to create a new entity within its own firm, the audit company will immediately follow by establishing itself an entity that will support the newly established entity of the core customer. As a result the service portfolios tend to always be designed according to the needs of the core customers.
5.2.7 Mini case: Auditing firm

Company Information

The company started as a very small independent auditing company. As time passed by and the company’s clients started to grow it became necessary for the auditing company to merge with other companies in order to have enough staff that could deliver the amount of work needed. During the 1980s the company’s clients started going overseas. Since the auditing company did not possess a global network that could assist their clients overseas it decided to enter into a strategic alliance with one of the top four auditing firms. This gave the auditing firm access to the global networks of the global auditing firm. In return the auditing firm had to pay brand royalties to the global auditing firm.

Internationalisation

Since the company does not have the global network needed to internationalise on its own, it tends to use the global network of the strategic alliance partner when assisting their customers abroad. The internationalisation pattern is tied to that of their customers which are mainly Japanese customers. So far most of their Japanese clients have been heading toward other parts of Asia, but also to Africa. According to the Respondent H one of the reasons why the company is not internationalising on its own is due to inefficiency. Another is related to financial resources. If wanting to add more customers abroad then that would mean that the company would have to hire more employees. Since the majority of the customers are Japanese, it would mean that they would have to hire more Japanese employees to assist these customers. However, that would put a strain on the company’s finances since they feel that Japanese employees salaries are very high. Therefore they choose instead to use the global network of their strategic partners in order to come in contact with the local office of the strategic partner in that country where their customers have decided to locate themselves. By doing so the local office will assist them (the Japanese audit company) and the entire process will not be as costly as it would have been if they had to open an own office abroad staffed.
with highly paid Japanese people. They do however mention that another way to go could be to open an own local office that would be staffed not only with Japanese people but also with locals.

CUSTOMERS

Of the company’s customers, some 70% are Japanese and 30% are foreign. The company has a couple of core customers, all Japanese, with whom they have had long-term relationships with. These core customers normally demand around 200 people to serve them, which is a relatively high figure considering that the company in overall has 8000 employees.

COMPETITION

Competition domestically is not fierce, at least not when it comes to the core customers. Respondent H says it is difficult to take a core customer, because that would mean that they would have to serve them with 200 people. However not that many firms possess such a large staff which complicates the process of potentially taking someone’s core customer. According to Respondent H it is much easier to take over small and medium sized companies from competitors because they do not require an equally large staff to serve them. Therefore as a result competition surrounding the small and medium sized firms in Japan is very fierce. Internationally they do not compete with other firms for foreign clients. When asked about whether they had the capabilities needed to take a foreign client abroad their reply was "yeah maybe".

BUSINESS RELATIONSHIP

The business relationships that the company has with it customers are still very strong and were not affected by the financial crisis. However their business situation changed. That was primarily due to the fact that their Japanese customers were not actively investing or making any business leaving them empty handed.
Service Portfolio

The service portfolio is adjusted to the needs of their customers, primarily core customers. When one of their long-term standing customers decided to create a new entity they were forced to immediately create a new service area that could assist this new entity. According to Respondent H all other companies are doing the same thing. Since they don’t have the financial resources or the amount of staff needed to take over a client from a competitor they will try instead to have a defensive approach making sure that they at least do not lose their current clients. And if that means that they have to diversify rather than specialise then that is what they will do.

5.3 Banks and Consulting Services

5.3.1 Industry Information

The majority of the banks in Japan are part of a financial group, that not only deals with banking related issues but also with various forms of consulting activities. Those activities are conducted in the respective financial groups Research Institutes. In Japan there are three tiers of banks. The first tier is composed by the three biggest banks, Mitsubishi-UFJ, Sumitomo-Mitsui and Mizuho who all operate on a national level. They are followed by a second tier composed of regional banks and finally a third tier of local banks. All the top three banks are results of previous mergers forced upon them by the Japanese financial services agency, Kinyu-cho.

5.3.2 Internationalisation

The top three big banks have different strategies when it comes to their internationalisation. According to Respondent D, Mitsubishi-UFJ, being the biggest bank of the three has a global strategic approach. They are followed by Sumitomo-Mitsui whose internationalisation ambitions extend only to East and Southeast Asia. The smallest and weakest one of the three, Mizuho, remains being still primarily domestic oriented.

Mitsubishi-UFJ has decided to go globally due to several reasons. According to Respondent D is has to do first of all with the mentality of the bank,
by being the biggest bank they find it normal to go abroad and to do it on a
global level. Together with the fact that they have a lot of capital and that
the population is shrinking back at home in Japan, has led them to buy up the
California based middle sized bank, Union with its some 11 000 employees as
a platform for the US market. The purchase was made primarily in order to
gain access to the banks American and foreign customers. If the bank would
have gone to the United States in order to serve Japanese customers it would
have instead opened an own office. However Respondent D does not believe
that Mitsubishi-UFJ will be successful in the US. According to Respondent
D it has to do with the Japanese culture, the difficulty of firing employees,
difficulties in changing department structures and lack of innovative think-
ing. Respondent B adds also difficulties in terms of organising employees,
recruiting them, training them and rewarding them, "Japanese are terrible
at that", and when touching upon Nomura and the difficulties the firm has
had after having acquired the Lehman Brothers operations in Asia, resulting
in the majority of the main staff leaving due to cultural clashes Respondent
B says "Nomura is the most painful and telling example". Respondent E
also adds what Respondent B and Respondent C said about the law firms
and auditing firms, i.e. that the language aspect is an important issue that
should not be forgotten when talking about Japanese PBS firms and their
internationalisation.

Financial resources decide the strategy. Since Sumitomo-Mitsui does not
possess the same amount of capital as Mitsubishi-UFJ does, the bank has
decided to focus on East and Southeast Asia. But the decision of heading
toward East and Southeast Asia rather than focusing on for instance North
America is due to the client-following approach. Banks simply decide to follow
the Japanese manufacturers of which many of them are long-term customers
at the respective banks. Of the countries in Southeast Asia, Vietnam distincts
itself from the others according to Respondent D. The reason is the high
development that is taking place in the country and the access to cheap
labour. But Respondent D also agrees that is has to do to a large part with
the high influx of Japanese companies entering the country.

The regional banks have also started to go abroad. They were already
doing it before the Lehman crash, but were forced to retrieve after the bank
collapsed. Now they are starting to internationalise again. They are doing it mostly because the market for individual loans is decreasing domestically due to the shrinking population. Therefore, they have no other alternative than to go abroad says Respondent D.

In terms of the Research Institutes, they are simply following their banks when they go abroad. According to Respondent D they are not strong enough to compete globally on their own. The reason is that "the culture is different".

5.3.3 CUSTOMERS

The majority of the banks customers are Japanese. There are several reasons to why that is the case. Some have already been touched upon earlier in previous sections, factors such as uncertainty avoidance and cultural and language barriers which also apply for banks and consultant firms. Aside from that, in the case of the banks, the role of the Kinyu-cho should not be underestimated. The Kinyu-cho more or less controls the banks, despite the fact that the agency does not have any equity stakes in the banks. By setting up new financial rules for the banks, the Kinyu-cho directs the banks lending. In the aftermath of the Tohoku earthquake it was decided that the banks had to lend money to small and medium sized domestic firms. That law was especially designed for regional banks to apply and was removed in the end of March 2014.

Those banks that have the financial muscles, such as Mitsubishi-UFJ are trying to diversify their customer base by acquiring foreign firms. Nevertheless the unique characteristic features mentioned previously by Respondent D make it difficult for banks to operate successfully internationally and therefore hamper their chances of gaining foreign clients. The Research Institutes face similar problems. Since they are significantly smaller than their foreign competitors they can only hope on the own bank to provide them with customers. Very often the case is that the bank sends over clients that it has good relationship with. According to Respondent F customers will be provided to the consulting firm by their own bank. Occasionally it might happen that some firm might call them up directly and need their services but they themselves will never try to go out and attempt to gain new customers.
5.3.4 Competition

The Japanese banks are not competitive, at least not internationally. The underlying reasons to that have already been submitted in the internationalisation section. As in the case with customers also here Kinyu-cho plays an important role. According to Respondent D Kinyu-cho tends to set up financial rules which prohibit the Japanese banks from operating as freely as the foreign banks. For example, Kinyu-cho demands that branch employees change branches every three years. This deep involvement has hampered the innovativeness of the Japanese banks and therefore also hampered their competitiveness.

Nevertheless, thanks to their long-term relationships with Japanese customers domestically the banks have at least managed to keep their ground at home. Even though the Japanese market has slowly started to deregulate, not only in the financial sector but also other industries in Japan, according to Respondent G the measures have been only cosmetic, “what you see on the surface is not the same as under the surface”, implying that the deregulation measures have not been that significant as one would believe. Very often have foreign companies been provided with incitements to enter the Japanese market that are applicable for only one year. Since foreign companies need at least between three to five years time before they can become profitable, many of them decide to not enter the Japanese market. That is one of the reasons behind why the FDI toward Japan has been so low and why there are so few foreign companies who wish to have their regional headquarters in Japan.

When it comes to the consulting firms, they are not competitive due to fee policies. In Japan, it is very often considered that a service should be free. Since the majority of the customers are also customers at their respective banks, consulting firms have difficulties of raising the fees and cannot get paid well for them. But beside from that, Respondent D believes that the Japanese consulting firms simply do not possess the same high level of expertise as that of their foreign competitors and that that in combination with the Japanese business culture prevents them from becoming internationally competitive.
5.3.5 Business Relationships

There exists a strong tie between government-banks-customers. Traditionally the government has played an active part in the Japanese banking sector, especially after the burst of the price asset bubble when it forced good banks to merge with bad ones resulting in a banking sector being dominated by three actors. The important role of the Kinyu-cho has already been underlined. As prior mentioned the agency created a law in the aftermath of the Tohoku earthquake that demanded that regional banks should give out loans to small and medium sized companies, even if the loans were bad. Occasionally some banks have tried to resist the Kinyu-cho. One such bank was Sanwa bank. According to Respondent D, Sanwa bank always resisted the Kinyu-cho only to see itself finally being forced to merge with Mitsubishi and become part of Mitsubishi-UFJ.

But in recent years the Kinyu-cho has started to loosen up its grip on the banking sector, allowing banks to decide their own strategies and allowing them also to become more specialised. The loosening up has not only been registered between the banks and the Kinyu-cho but also within the keiretsu networks. According to Respondent D the banks are not independent, but "they don't care anymore about the keiretsu". However one bond that is still strong is that between the banks and its customers. Since the relationships have been created over generations banks will tend to lend out money even in good times as well as in bad ones, and because of the relationships "it is not logical for the banks to stop lending" says Respondent D.

In terms of the consulting firms, their business relationships are primarily tied to their respective banks. The reason is as previously mentioned the fact that more or less all their customers come to them because they have been sent there by their banks. Since the majority of the Research Institutes are small to size and do not have sufficient funds, they can only rely on the customer base of their banks in order to operate successfully. In addition the Research Institutes are heavily dependant on their banks in terms of funding. It is the banks that fund their activities and decide the size of budgets, making the Research Institutes totally reliable on the banks willingness to lend out money to them.
5.3.6 Service Portfolio

The Japanese banking sector faces the same need of development that is currently occurring within the Japanese legal industry. According to Respondent D Japanese banks will have to start to specialise since "there is no more mass market". That means that they will have to be able to meet the ever more specific needs of their customers by becoming more niche oriented. Respondent D refers to the US banks by providing an example of US banks that only lend money to companies, something that currently does not exist in Japan. While Respondent A believed it would take the Japanese legal industry 10 years or less to specialise Respondent D thinks that it will take a longer time, 20 years to be more precise. Respondent D adds that a lot has happened within the banking sector since it started deregulating 20 years ago with Japanese banks being now allowed to open their branches, to offer private banking products, private banking services etc. Even though admitting that 20 years is a long time before the Japanese banks become sufficiently specialised Respondent D expects that the process will accelerate.

5.3.7 Mini case: Research Institute

Company Background

The company is a Research Institute to one of the top three banks in Japan. It has a staff of 300 people. The company works mainly with economical research and has three offices abroad in London, New York and Singapore.

Internationalisation

The Research Institute has currently no future plans of further internationalising itself due to the fact that they find it among others to be too costly for them. Respondent I says that it is difficult to have a local office abroad because it is staffed to a certain degree with high payed Japanese people. Since the majority of their customers are middle-sized Japanese companies, they do not have the sufficient budget to pay the Research Institute fees on those levels that would make it profitable for them to have offices abroad. Therefore the combination of high paid Japanese workers and low fee levels
that they charge their customers with makes it difficult for them to consider of further internationalising. Of the three offices that they already have abroad, they all function solely as places where information is gathered, information that is then sent back to the Tokyo office who takes care of it and provides the final product to its customer meaning that no client-following approach was used when they decided to establish themselves in those cities.

CUSTOMERS

The Research Institutes customers are all Japanese. Respondent I says that if foreign companies would expand their division to Japan then they would of course consider of helping them. The possibility of them providing services to foreign companies abroad is not something that they believe they can handle because that is not their strong point. According to them their strong point is the information network that they have in Japan and as a result of it they tend focus only on Japanese customers. The emphasis on providing services only to Japanese customers is further reinforced when Respondent I adds that they still have enough Japanese customers and that there are so many Japanese companies that still need more and more consulting services and information.

COMPETITION

The domestic competition is not fierce because as mentioned prior according to the company representative the Research Institute still has enough customers, at least Japanese customers. Furthermore, the majority of the customers that they receive come from their own bank, 90 % of them to be more precise. In terms of becoming competitive abroad Respondent I says that they would then have to have more specialties i.e. skills, primarily negotiation skills and information.

BUSINESS RELATIONSHIP

There is a very strong relationship between the Research Institute and its bank. The Bank provides the Research Institute not only with its own customers,
which in turn make up 90% of the Research Institute’s customer base but also with funds. The reason why the bank provides the Research Institute with that many customers is due to the fact that in Japan customers when thinking of hiring a consulting firm turn to the bank first. If the company’s main bank is the Research Institute’s bank, then the Research Institute’s bank will send the customer to the Research Institute to conduct the work. However the Research Institute has some independence against the bank, meaning that it can consider whether it will accept the work or not that the bank has provided them with. That is conducted in such a manner that the Research Institute will normally consult with the bank whether they find the case to be fair or not. Since the bank values the opinion of the Research Institute, the bank will once again talk to its customer and give them a new proposal to consider whether to accept or not. Beside from their strong relationship to the bank the Research Institute also has its own route, i.e. that they receive customers who come to them directly and not through their bank says the company representative.

5.3.8 Mini case: Consultancy firm

Company Information

The company is Japanese consultancy firm in the field of human resource management and organisational development. It was founded fifty years ago and has today around 400 employees, an annual turnover of USD 60-70 million and subsidiaries in China and South Korea. Initially the firm focused on management training based on American models of management, which had been imported and adapted to the Japanese context. However, the firm has since then moved towards the wider field of organisational development and their business today consists of four major areas: training, consulting, diagnostics and surveys, and licensing of intellectual property. Training is often part of broad consultancy work in organisational development, but it is also for instance provided for new employees in Japanese companies (shinyushain kenshu) and prospective managers with the purpose of developing their managerial skills. It is the largest business area of the firm representing approximately two-thirds of total revenues. In consulting they have large
expertise within sales team development, but they also provide assistance to companies striving to develop their organisations. In addition to organisation diagnosis services they also hold the intellectual property rights to a number of different software solutions that they license to companies and organisations worldwide.

The corporate culture is a mix of Japanese and Western values and this culture has developed through close relationships with American scholars. Notably, the firm has a large focus on performance and productivity. Since the tools of the firm are based largely on American ideas and values, a natural consequence has been to practice what you preach. The company’s values and philosophy are constantly discussed to maintain the health of the organisation.

Internationalisation

The internationalisation history of the firm began around the turn of the century when the former CEO took the decision to globalise the firm’s activities. It was not the firm’s original business in the areas of training and development that would form the base for this international strategy, but the new licensing business. Relevant software was obtained through the acquisition of two small American software firms. The nature of this new business area would involve many challenges since licensing proved to be substantially different from the consulting services in training and development where the firm had most knowledge. Some of the difficulties related to the licensing area continue to trouble the company today.

They also tried to establish training and development activities in the US by sending a number of employees from Japan. At the time many Japanese companies had operations in markets such as China, Korea and the US and the intention was to answer to their demand for training and development services. It was not the relationship to any specific clients that pulled them to the US. Instead, it was the general business environment and existing market opportunities that made the former CEO consider it as a good idea to set up an American subsidiary. However, the challenges related to the investment in the US eventually made them take the decision to withdraw from the market. Nevertheless, partnerships with former US employees still remain in order to
manage the licensing business.

Focus was instead shifted to South Korea and China where subsidiaries had been established about the same time as in the US. Initially difficulties were experienced in these markets too, but operations are still intact. However, the scale of the operations is relatively small. Around 15-20 employees are stationed at each site, but most are hired locally. In South Korea all are local, but in China the CEO and a few sale team members are Japanese with long experience from China. The choice of South Korea and China is partly explained by geographical proximity, but these countries also have many cultural similarities to Japan, which affected the decision. The availability of South Koreans and Chinese with good proficiency in Japanese also provided an opening for the company to enter these markets.

Many lessons were made from the failed US operations. Problems were especially related to the fact that Japanese approaches directly were applied to the American context. In contradiction to initial expectations language difficulties turned out to be a real issue since the US-based Japanese client firms demanded services in English. Differences in the mind-sets of American managers also inhibited the successful provision of services in organisational development. Language issues were experienced also in South Korea and China, but one solution has been to employ local staff with educational backgrounds in Japan who understands Japanese culture and the corporate culture of the parent company.

Generally the South Korean operation is doing much better than the Chinese. In China the Japanese CEO is really struggling and challenges are especially faced in terms of cultural differences and high labour turnover. A number of cases have been seen in recent years where employees leave the firm to set up their own consultancy businesses, but the firm is strongly determined to turn the Chinese operation into a success. Respondent J has a hunch that South Korea is culturally closer to Japan, which may constitute one explanation to why that market is producing better financial results.

Despite the mixed results continuous internationalisation remains very important to the company. An ambitious goal of the company is to offer their knowledge and technology to companies and organisations worldwide, but they emphasise the importance of starting in small scale. This is coherent
with their strong focus on productivity and the values of the current CEO to not let growth exceed current capabilities. India is one prospective future market due to its market size and high level of English proficiency. Many of the company’s tools are available in English making them suitable for the market. Moreover, setting up a small office in India would not require any larger financial commitment. However, past experiences have made the company very restrictive in terms of future expansions. The failed business in America put the company in danger for the first time ever and this has left company management more cautious than ever before. Ultimately, the decision to enter India will depend on how current businesses with Indian clients develop. So far the focus has been on developing the licensing business, which is still very small. Many Japanese companies are trying to break into the Indian market, but delivering training and consultancy services to these in India could prove difficult considering the slow progress and the many problems they are facing. The situation is different in Thailand and Indonesia where the direct delivery of consultancy services is easier due to the high presence of Japanese companies.

Further development of the licensing business is also the goal for other markets where the company has presence through subsidiaries or partnerships. An expansion of the company’s historical business areas of training and organisational development is not top priority. In South Korea, China and Japan that part of their business will continue to operate in almost the same way. Also, no plans exist to shift business totally to a different business model. In addition to India, Singapore is one prospective candidate for a small future establishment. However, there is no intention of even trying to compete with consultants in Singapore. Instead, Singapore could work as a springboard for developing the business in the so far unexploited Southeast Asian markets. “For us and for other firms it would make sense to be in Singapore because of its location” says Respondent J, “Southeast Asia in general is where we want to go, focusing on Thailand, Indonesia and India”. The applied strategy will depend on the market. For instance, in Thailand direct delivery of services is more attractive than licensing. Again, one of the reasons is the large presence of Japanese companies in the region. “Europe and America still have potential, but we already have partners and distributors there”.

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When asked about the connection between the firm’s current internationalisation strategy and the structural changes in Japan they explain that the company would probably be able to continue their business in Japan for a very long time. They both have a very strong customer base and sales force to do so. Respondent K says “the top management is also considering the future where a lot of Japanese companies will go global... and the [Japanese] market will also shrink or stay the way it is. It will be difficult for us to increase business if we want to stay lean inside of Japan”. The licensing business is an important part of their current growth strategy since that will generate passive income. On the contrary, the performance and number of consultants in the organisation limit growth of the training and consultancy businesses. At present, the corporate culture does not support that kind of organic growth. Adding more employees would also mean that internal management and work procedures would have to be redesigned to support the larger organisation and currently there is no willingness to engage in such activities. Growing the licensing business in Japan as well as abroad is a reaction to the structural changes that have occurred in Japan in the past 20 years.

CUSTOMERS

The firm states that the presence of other Japanese companies definitely is one element that is taken into consideration when making decisions on market-entry. They are convinced that it is much easier to get Japanese customers than local customers in foreign markets. For instance, they have an extensive record of success cases with Japanese customers to present to prospective clients. This makes it naturally easier to approach Japanese customers.

In Korea currently about half of the clients are Korean, while the other half are Japanese. This is very different from a couple of years ago when roughly 80% were Korean and only 20% Japanese. The firm explains that one reason why they had a large share of Korean clients is because they had, and still have, Korean consultants and sales people with good networks. However, a Japanese manager has in the past years been very helpful in
creating synergies between the different markets, which explains the rising share of Japanese clients in Korea. The Chinese case is very different. Here as much as 90% or more of the clients are Japanese. On the question why they mention the widespread anti-Japanese sentiment in China, but the Chinese market is also characterised by strong domestic business networks that are difficult to penetrate. “It is difficult for a Japan-based firm to go in and work with [Chinese] companies, even if we have local employees there”. They also explain that the government plays a huge role in this market. “We would really... like to work with the government, work with large corporations there, but [the difficulty of breaking into networks] makes it difficult for us”.

As far as the customers in Japan are concerned, they perceive themselves as well-diversified. Philosophy-wise they say “it is better to make ten million dollars from one hundred different customers than to make ten million dollars from one customer”. They do, however, have strong relationships with some very large customers that improve their reputation with small and medium-sized companies.

**COMPETITION**

Domestic competition is not experienced as particularly fierce. Job rotation is part of Japanese corporate culture so when people in managerial positions change it is easy to approach them to make offers. There is plenty of room for that in the company’s business.

In Korea competition is pretty fierce. The source of the most severe competition comes from domestic firms, but the firm is still trying to establish relationships with large South Korean corporations. “It is easier for Korea because... they have colleagues and information here in Japan so they get referrals. Also for China, with regards to Japanese corporations, they can always get referrals from us so it must be easier for them”. Both in China and South Korea there are many companies working with the same business areas and many are of Japanese origin. The move of Japanese manufacturing industry to China is an especially strong driving force behind this development. “That has been one of the external driving forces for us as well”.

Many large international players working with training and organisational
development have currently their eyes on the Asian market. The company states that they will not be able to compete with them, but by targeting SMEs striving to get a competitive edge again other SMEs they hope that their services can win ground in Asia. SMEs constitute an attractive market since many of the large players are likely to already have own tools. Therefore, for licensing it would be better to target SMEs. Providing other PBS firms with tools through licensing could also be one way of generating revenue. They can in turn bring those tools to the large corporations that they work with.

BUSINESS RELATIONSHIPS

The firm agrees fully that it is very hard for them to break into established business networks in foreign markets. This is not the least exemplified by the Chinese case. As mentioned earlier, they find it much easier to get Japanese customers.

They have a fairly well-developed global network of partners and license agents. These channels are not only used for license products but for direct delivery of services as well.

With SMEs business relations are primarily built with specific representatives, sometimes with CEOs, but sometimes with people working for instance within the planning division. As far as the human resource business is concerned, it is very difficult to build long-term relationships. Japanese job rotation has an obvious effect on the business relationships and how they develop. They mention that the banking sector is probably different where strong relationships likely are more important.

Relational bonds to large firms are not very strong even if the company has some large Japanese clients that they have worked with for a very long time. Working with such clients more involves strict budgets and bidding processes. “It is more important that the energy works between our firms, representatives and the actual consultants”. Small mistakes can in the Japanese case mean that you are forever banned from certain clients.
6 Analysis

In this section the empirical findings are analysed in accordance with theories presented in the literature review. To provide a clearer picture of the dynamic process occurring in the PBS industry the analysis has been structured around different PBS sub-industries.

6.1 Legal services

The empirical data surrounding the Japanese law firms displayed them as being the dominating actors domestically. In terms of their foreign engagement, before Lehman Brothers they had only a couple of small offices situated abroad, mainly in Asia because of the great amount of Japanese clients already situated there (Weinstein, 1977; Nachum, 1999). From there the Japanese law firms would provide services solely to them since they preferred having Japanese lawyers providing them the services rather than foreign. In terms of providing legal services to foreign clients abroad, the Japanese law firms lacked the competitive advantages (Dunning, 1980; Hymer, 1976) required for such an undertaking. As a result, their international commitment would be limited to only supporting Japanese clients. However, in the aftermath of Lehman Brothers, several influences as Respondent A said pushed the legal firms toward increasing their international commitment, despite still lacking the competitive advantages. As the empirical data shows below, this has constituted severe challenges for the Japanese law firms.

First, the results showed that Japanese lawyers exhibited difficulties in providing services that also covered the business aspect. That is a problem which is in line with Asakawa’s (2013) explanation of the first dimension, the high customer interface complexity dimension. The problem concerning the high customer interface complexity dimension in this context was that while it was customary in Japan to have only the legal aspect covered when delivering the service, it did not necessarily mean that the foreign customers would expect or appreciate it. Therefore while the approach may have functioned perfectly well for the Japanese law firms in Japan, it would most likely function as a barrier internationally.
Second, as prior mentioned, when going abroad the Japanese legal firms would normally tend to open only a small office, consisting of two or three Japanese employees. Criticism regarding this was raised by the experts because they did not see what kind of positive effect it would have for them. Similar arguments have also been underlined by Endo and Ozaki (2011). In order to fully reap the benefits of internationalising, larger investments than opening a local office consisting of two or three employees should be required. However, as Tanaka (2011) pointed out, only a small group of service firms can cope with the huge costs that occur when internationalising.

Third, language and culture as barriers to successful internationalisation were also obstacles that proved to be in line with the literature review (Freeman and Sandwell, 2008). The empirical results confirmed that these obstacles made it difficult not only for the legal firms but also other Japanese PBS firms to successfully internationalise. The lack of Japanese people who were fluent in English aggravated the process of delivering good professional services, especially in the legal context where contracts were developed in the United States and England meaning that you had to be able to provide sophisticated services precisely in English and no other language.

Aside from the above mentioned challenges, worth stressing is the current transition process in the Japanese legal industry toward becoming more specialised as the rest of the global legal industry. If they manage to speed up the process then it might improve their chances of internationalising successfully. However, the language and cultural aspect will still remain important factors in determining how successfully they will be able to provide these new specialised services internationally.

6.2 Auditing services

The structural changes in Japan did not considerably affect the Japanese auditing firms in terms of compelling them into becoming more internationalised. That is because they have always lacked strong global networks, something that is required if you wish to provide professional services of high quality abroad. The cause to that can be traced to Johanssons and Mattssons (1988) network theory and Freeman and Sandwells (2008) various barriers
that aggravate the creation of network relationships and as a result impede the internationalisation process. According to Hitt et al. (2005) it is possible to overcome these difficulties and establish relationships if the company has a strong human capital.

However, the empirical results showed that even though Japanese workers possessed certain strong human capital features, due to cultural and language reasons, they lacked the social and personal attributes required for establishing strong relationships with foreign partners. As a result, that meant that regardless of what events may or may not have taken place in Japan, the Japanese auditing firms would have still remained incapable of internationalising successfully. These problems became early on in the 1980s apparent among the Japanese auditing firms when their Japanese core customers decided to internationalise. That resulted in them not having any other option but to partner up with a global actor who possessed these global networks. Worth adding is that the strategic partnership itself must be considered as unique since the approach actually differs from Mallampally and Zimny’s (2000), which due to the fact that services are not tradable, require that service firms establish foreign affiliates as the main entry mode to a foreign market.

Nevertheless, the empirical results confirmed that they were market seeking (Enderwick, 2007) and that the motive behind their strategic partnership could be applied to Weinstein (1977) and Nachum’s (1999) explanation of Japanese auditing firms internationalising as a result of their customers decision to undergo the same thing. However, due to lack of strong global networks, they were instead obligated to establish strategic partnerships with global actors in order to be able to support them globally.

6.3 Banks and Consulting Services

The structural changes in Japan have especially had an impact on the banks situation. In terms of domestic competition, not that much has changed, the business relationships between the banks and their long-term customers have remained solid. As a result, the possibilities of snatching up customers from competitors have been relatively limited. However, the domestic market has been shrinking due to a decreasing population and this has been felt by the
banks. After having been severely affected by the burst of the bubble in the early 1990s, the banks finally managed to once again amass high amounts of capital required for future internationalisation. Precisely the amount of capital has functioned as an indicator to how extensive the internationalisation has been. This has meant that the biggest bank, Mitsubishi-UFJ has been capable of undertaking a global strategy, while other banks such as Sumitomo-Mitsui have restricted themselves to a regional level, i.e. Asia.

Nevertheless, despite the different amounts of financial resources available, the banks share similar attributes, i.e. they are all market seeking (Enderwick, 2007) and with the exception of Mitsubishi-UFJ, they have all applied the client-following approach (Weinstein, 1977; Nachum, 1999). Doubts have however been raised concerning their capability of gaining foreign customers in new markets as well as how suitable they are in terms of running acquired foreign firms consisting of foreign staff. According to Respondent B, Japanese companies are terrible at that and the main reason is the cultural and language aspect. The same opinion was expressed by Respondent D. This makes Freeman and Sandwells (2008) research up-to-date and just as in the case regarding law firms, an approach to overcome this could be by applying a strong human capital (Hitt et al., 2005). Considering the fact that Japanese people do not possesses social and personal attributes in the same extent as Westerners do, it is difficult to estimate how they will solve such a problem.

Furthermore, the long-term involvement of the Kinyu-cho plays an important major role which must not be neglected when referring to the banks. Their constant mediating over several decades limited the freedom of banks to operate freely. As a result, this led the experts to believe that it had hampered the innovativeness of the banks (Rodriguez and Nieto, 2012; Castellacci, 2010). But more important it has probably affected the process of creating owner specific (Dunning, 1980) or monopolistic (Hymer, 1976) advantages, which could be used for successful internationalisation.

In terms of the Research Institutes, they have not been equally affected by the structural changes. That is primarily due to the strong Bank-Research Institute relationship where Research Institutes are completely dependant on their banks for providing them with funding and new customers. This high dependency has meant that the Research Institutes have not been able to
operate freely and initiate own strategic decisions concerning their operations. In addition, it has also probably hampered their possibility of developing any kind of competitive advantages (Dunning, 1980; Hymer, 1976), which could be later applied in an international context. Of the internationalisation that has so far been undertaken, it has been conducted in such a way that they have opened offices (Mallampally and Zimny, 2000) close to their banks customers (Weinstein, 1977; Nachum, 1999).

The mini case of a Japanese consultancy firm tells an interesting story of a Japanese PBS firm’s attempts to go global. It is notable how this process resembles the development pattern suggested by Johanson and Vahlne (1977) in the Uppsala Model. The former CEO advanced the idea to utilise firm capabilities in foreign markets to benefit from the large amount of Japanese clients present in those markets. However, the decision to enter three new markets within only a couple of years posed several challenges, which would initiate a learning process that continues still today. Strategies had to be reconsidered to overcome some of the liabilities of foreignness. In particular, the importance of local staff and language capabilities was recognised. Findings also indicate that the current expansion resembles a spider-web process where markets in the immediate proximity have been given priority over distant markets (Abdelzaher, 2012).

What impact have the structural changes in the Japanese economy had on the firm’s internationalisation? In the case of this consultancy firm the structural changes were not found to have had any profound impact on firm strategy. Respondent K stated that close business relationships to Japanese clients in the domestic market can likely keep the firm afloat in the future. Nevertheless, the shrinking Japanese market size is a serious matter of concern. This concern is also shared with a broad range of Japanese firms from different industries. Indeed, internationalisation in general is currently a hot issue in the Japanese economy. As more Japanese companies, particularly in the manufacturing sector, establish operations abroad the demand for business services will develop in these markets. In that sense the growing market for services in Asia has had a far larger effect on the firm’s internationalisation. As suggested by Rubalcaba et al. (2013) the firm seems to prefer business development in geographically and culturally close markets. These are also
markets where many Japanese potential clients are to be found. As mentioned by the consultancy firm this is an important factor to consider when making decisions on foreign investments and Asia in general is where the firm wants to go. Enderwick (2007), Boddewyn et al. (1996) and Buckley et al. (1992) mentioned four potential motives behind internationalisation. In this case the empirical findings suggest that market seeking is the primary motive behind the firm’s internationalisation.

The question is if the firm will be able to compete with local firms in foreign markets. The eclectic paradigm of Dunning (1980) suggests that FDI is the result of internalised ownerships-specific in combination with location-specific advantages. The original business areas in management training and organisational development constitute one source to the firm’s ownership-specific advantages. We suggest that the potential value of these skills is higher when applied in a Japanese context, for instance at a Japanese company operating in foreign markets. Their knowledge about Japanese organisations and Japanese ways allow them to compete in areas where foreign PBS firm have less competitive advantage. This is evident from the firm’s current business strategy. A higher potential is seen for services involving direct delivery in markets such as China, Korea, Thailand and Singapore where many Japanese potential clients are located. The markets constitute the location-specific advantage and the direct delivery itself call for internalised service delivery. On the contrary, development of the licensing business is performed on a more worldwide basis, including markets such as Europe, America and India.

Internationalisation can also be viewed from a network perspective. Johanson and Vahlne (2009, p.1426) suggested that “a firm’s opportunities and problems in international business are becoming less a matter of country-specificity and more one of relationship-specificity and network-specificity”. In the case of this consulting firm the cultural background and language difficulties still constitute liabilities, but the difficulty of accessing new networks is also significant. A question that then arises is what type of clients that would consult Japanese PBS firms. The findings from this case suggest that the answer is likely other Japanese firms. Hence, the future for Japanese consulting services in Asia appears closely linked to business relationships developed with
other Japanese companies, especially in manufacturing. We will likely see a growth of Japanese consulting services in major urban areas where Japanese companies have production, since PBS have a tendency to agglomerate in such places (Bryson and Rusten, 2006; Glücker, 2007; Rubalcaba, 2013). This trend is confirmed by current OFDI patterns in non-manufacturing (see 1, where increasing investments have been recorded in China, South Korea as well as India. This development is also closely correlated with OFDI growth in manufacturing in these countries (Bank of Japan, 2014).

6.4 The Conceptual Framework Revisited

In our conceptual framework we presented a new competitive situation for the Japanese PBS firms, based on 20 years of domestic structural changes and an increasing service activity in Asia. It was expected that the strategic response of the Japanese PBS firms to these changes would be among others to internationalise. According to the empirical data that is precisely what they did. The structural changes domestically in the form of e.g. a deregulating market, a weakening of the keiretsu bonds and an overall shrinking domestic market due to a shrinking population made the Japanese PBS firms aware of the need to internationalise. At the same time, the Asian service sector kept on growing at high rates, making it the most attractive destination for Japanese FDI. Hence, the Japanese PBS firms started to internationalise, primarily in direction towards East and Southeast Asia. However, the empirical results came to exhibit that despite the great prevailing possibilities in those markets, certain factors (presented below) have hampered the process of developing competitive advantages required for successfully internationalising. As a result it has impeded the internationalisation process and not resulted in an improved competitive situation for the Japanese PBS firms.

The first factor has been the language. When providing professional services, language tends to play a central role. It is highly important that you can make the customer as Respondent B said feel comfortable when providing the service to them. Unfortunately, many Japanese people do not display such strong language skills, resulting in them displaying difficulties in obtaining foreign clients abroad. In addition, the offices abroad tend also to be mainly
staffed with Japanese people instead of locals. Hence, a way to improve their competitive situation internationally could be by staffing their foreign offices also with locals. This was depicted in the mini case concerning the IT consultancy company, which had managed to successfully internationalise in Korea by adopting precisely this approach.

The second is the cultural aspect. Our results showed noticeable differences when it came to how Japanese professionals and foreign customers would look on services (Asakawa, 2013). The fact that they had various views on what could be considered as service value did not favor the Japanese professionals when dealing with foreigners. Furthermore, the empirical data also demonstrated how the cultural aspect could create difficulties for the Japanese PBS firms in operating their foreign affiliates (Freeman and Sandwell, 2008). They for instance displayed hardships with how to handle the fact that their staff would leave them and take with them their customers, problems which are not normally present in Japan. The empirical results showed that most of the interviewees were doubtful, in some cases purely pessimistic, toward how the Japanese PBS would manage to cope with this problem.

The third concerns exclusively the banks and the influence of the Kinyu-cho (Ono, 2001) on them. The considerable amount of involvement by the Kinyu-cho had interfered the banks possibilities of developing competitive services to such an extent, that together with the cultural aspect, it was seen by the experts as one of the primary causes behind why they could not improve their competitive position and internationalise successfully. Even though the banks were slowly improving their competitive position by becoming more specialised as the rest of the banking industry, doubts still remained whether that would be sufficient.

The fourth has been the various underlying structures in the country. Our data exhibited a couple of such structures, e.g. the educational system for law, which is now being transformed to resemble more the American model. Traditionally, Japan would only have a couple of hundred graduates per year, of which all would focus primarily on litigation matters. However, that did not go hand in hand with the demand of the Japanese business community and the direction in which the legal industry was heading globally. The empirical results showed that it is only recently that things have started to
change in the right direction. Then there is also the problem concerning the Japanese students increased unwillingness of studying outside of Japan. Since the burst of the bubble a reverse trend has been notified in the amount of Japanese students studying abroad. This is a matter of concern because it will only further complicate Japanese PBS firms potential of improving their competitive situation.

The combination of the four obstacles mentioned above, have resulted in Japanese PBS firms providing their services mainly to Japanese customers abroad. This is an approach that was in use even before the burst of the asset bubble. However, our data shows that the Japanese are now becoming aware that this is not sustainable in the long run, but at the same time not that much is being done in order to change it. The potential is nevertheless there, primarily in the strong human capital (with the exception of social and personal attributes) that the country possesses, but it still remains difficult to predict whether they will actually succeed in improving their competitive position or not.
7 CONCLUSIONS

The purpose of this study has been to expand our understanding on the evolving nature of Japanese PBS firms and their internationalisation in Asia. Against the background of structural changes in the Japanese economy and the growth of PBS in Asia, the Japanese PBS industry was expected to respond by increasing its global presence. To fulfil the purpose of the study two research questions were formulated:

• How have structural changes in the Japanese service economy affected the internationalisation of Japanese PBS firms?

• What are the future prospects of the Japanese PBS industry in Asia?

Through interviews with Japanese and foreign PBS firms in Japan, as well as interviews with industry experts a number of conclusions can be made. As far as the first question is concerned, the empirical results show that the structural changes have affected the internationalisation of Japanese PBS firms in the following manners:

• Structural changes have not significantly changed the motives of Japanese PBS firms to internationalise, but internationalisation is an important issue. The internationalisation is still primarily driven by client-following and/or market seeking approaches. The provision of PBS to Japanese clients abroad is especially common.

• Despite ongoing structural changes in the Japanese economy these changes are still not very far gone. Government interference and underlying structures in the Japanese society still inhibit the successful internationalisation of Japanese PBS firms. Language and cultural issues also still constitute significant barriers to internationalisation. Consequently, Japanese PBS firms lack competitive advantages in comparison to foreign PBS firms in the international market. This explains why Japanese PBS firms primarily work with Japanese clients when going global.
• Structural changes have in some cases made firms internationalise, for instance by acquiring foreign firms in order to gain access to foreign customers. However, it is doubtful whether this strategy will prove successful given the cultural issues.

Regarding the second research question the following conclusions can be made:

• Compared to other regions Asia provides the best environment for the future development of the Japanese PBS industry. It is culturally closer to Japan and many Japanese firms have presence in the region. Japanese manufacturing industry provides an especially important platform on which further business growth can be based.

• To get away from the heavy reliance on Japanese clients, Japanese PBS firms will in the long run have to establish connections to new non-Japanese business networks in foreign markets. This will constitute a major challenge considering the differences in language and culture.

• Employment and successful management of local staff will be essential to provide services to other than Japanese clients in foreign markets. Local staff constitute a cultural bridge between the firms and the clients enabling the direct delivery of PBS.

• Major urban cities in Asia will provide access to new business networks. Therefore, when Japanese PBS firm internationalise they can be expected to locate in such cities, e.g. Singapore, Shanghai and Seoul.

• For banks and law firms specifically the prospects in Asia depend on their ability to speed up the transitions towards providing specialised services. They are currently in a transition phase, where they are abandoning the previous approach of providing general services in favor of specialised, which is the global industry standard and a necessity for being competitive. Japanese law firms are also expected to have bigger chances to succeed in Asia due to the low competitive pressure from other foreign law firms.
7.1 Managerial implications

This study has shown that various factors have affected the internationalisation process of Japanese PBS firms to the degree that they have restricted them to primarily supporting Japanese clients abroad. Nevertheless, the findings indicate that Japanese PBS firms can improve their chances internationally by undertaking specific measures. First of all, by hiring local staff in foreign markets, the Japanese PBS firms will manage to create a cultural bridge which will improve their business possibilities with other clients than Japanese. Another approach could be to improve the language skills of employees, since strong language skills are crucial in the delivery of professional services. However, this has been one of the Japanese PBS industry’s weaker sides and underlying structures in the Japanese society have impeded the possibility for improvement. It is beyond the scope of this paper to investigate how such underlying structures can be changed, but it still remains as one of the Japanese society’s biggest challenges.

7.2 Suggestions for future research

This study made an attempt to increase our understanding of the evolving nature of the Japanese PBS industry using a qualitative case study methodology based on semi-structured interviews. Future research with larger resources in terms of time could try to apply the same methodology but include more Japanese PBS firms in the sample to yield better results.

Quantitative approaches could also be used to conduct more detail studies on the differences between Japanese PBS sub-industries. This could be done using various data collection methods, such as surveys or structured interviews. For instance, research could try to show if there are evident differences in the preconditions to internationalisation among firms of various PBS sub-industries.

Lastly, the present study showed that breaking into non-Japanese business networks is very difficult for Japanese PBS firms. Further exploring cases of successful relationship building between Japanese PBS firm and non-Japanese clients could provide valuable information to other Japanese PBS firms aiming at getting out of a dependency on Japanese clients.
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Appendix 1: Interview Protocol

General Information

• Company name
• Main line of business
• Position of interviewee
• Nationality of interviewee
• Brief firm history
• Keiretsu affiliation

Internationalisation

• Account of the firm’s internationalisation history
• What type of international activities are you engaged in?
• Has the economic downturn in Japan during the past 20 years involved structural changes that have affected the operations/internationalisation of the company? In what way?
• Have firm responses to such changes made it easier or more difficult to operate in international markets?
• How important is it to the firm to internationalise? Why?
• What are the motives for the firm to enter foreign markets? Which motives are most important?
• What factors are important in determining the location of foreign activities?
• Do you prefer geographically close markets?
• Does the firm have the ambition to become more internationalised in the future? If so, where and how?
• How do you think about Asia and its business opportunities?
• How has the firm entered foreign markets? What is the preferred entry mode?
CUSTOMERS

• Has the economic downturn in Japan during the past 20 years involved structural changes that have affected the company’s customer relations? In what way?

• Which are the three most important customers of the firm in terms of revenue?
  – What would the effect be if the firm lost its main customer?

• Are the most important customers part of the same keiretsu?
  – How important are these customers in terms of overall profitability?

• How important are Japanese customers/foreign customers to the firm in Japan?

• How important are Japanese customers/foreign customers to the firm in foreign markets?

• How important is it for the firm to build new relationships with foreign clients?

• How easy/difficult is it to get Japanese/foreign customers in Japan?

• How easy/difficult is it to get Japanese/foreign customers in foreign markets?

DOMESTIC AND FOREIGN COMPETITION

• Has the economic downturn in Japan during the past 20 years involved structural changes that have affected the company’s competitive position in Japan in Asia? In what way?
  – How has the competitive pressure from domestic and foreign firms developed?

• Has competition across keiretsu/business group boundaries increased? How?
• Which are the most important competitors to the firm?
• How do you think about the future competitive situation of the firm in Japan?
• By what strategic measures is the firm trying to enhance its competitive position?

Business Relationships

• Has the economic downturn in Japan during the past 20 years involved structural changes that have affected the company’s business relationships? In what way?
  – Has the importance of close customer relationships changed?
• Is it more important to maintain existing relationships than to build new relationships?
• Is the firm actively seeking to establish new business relationships? How?
• How challenging is it for the firm to establish new business relationships?
  – In Japan?
  – In Asia?
• How have the relational bonds to other firms within the same business network/keiretsu developed over the past 20 years?
• To what extent is the ability to establish new business relationships/exploit new business opportunities affected by present relationships to other firms in the same business group/keiretsu?
• How important is it for the firm to build close relationships with customers?
• How long have relationships to your main customers been?
• Is there a difference in the length of relationships with Japanese and foreign customers?
SERVICE PORTFOLIO

• Please describe your current business activities and service portfolio.

• Has the economic downturn in Japan during the past 20 years involved structural changes that have affected the company’s service portfolio? In what way?

• Is the service portfolio the same in all countries where the firm has presence?

• Does the current service portfolio facilitate operations in international markets?
Appendix 2: Interviewee Overview

Respondent A is a foreign licensed lawyer working for an American law firm in Tokyo. The respondent is partner in the firm and has been working with the company for almost twenty years. The respondent came to Japan in the late 1970s and speaks Japanese fluently.

Respondent B is a foreign law consultant in Tokyo. The respondent has been working at numerous law firms in Japan, both American as well as Japanese. The respondent grew up in Japan and speaks Japanese fluently.

Respondent C works as a partner for the transaction services team at one of the big global auditing firms. The respondent came to Japan two and a half years ago. Before that the respondent worked in Canada and Hong Kong.

Respondent D is a researcher within service marketing and management. The main area of focus is the Japanese financial consulting firms. The respondent speaks English.

Respondent E works in Tokyo for a Swedish consulting group company. Their main customers are big industrial companies from Scandinavia.

Respondent F is the general manager of the overseas business support department at one of the big Japanese research institutes. The respondent has previous experience of working in the United States and Asia. The respondent speaks English.

Respondent G is an economist working as an attaché in Tokyo. The respondent has been living in Tokyo for four years. Before that the respondent lived in South Korea. The respondent speaks Swedish.

Respondent H is the senior vice president at his company and has been working there for almost 20 years. The respondent currently works with
financial advisory. Before that the respondent worked at the tax department. The respondent speaks English.

**Respondent I** holds the position of senior manager at the consulting department of a regional Japanese bank. The respondent has previously worked in Singapore and is of Japanese. The respondent speaks English.

**Respondent J** is a consultant working for a Japanese consulting firm. The respondent has been working at the firm for four years. The respondent speaks Swedish.

**Respondent K** is the senior manager at the consulting firm where Respondent J works. The respondent has been working there for 19 years. The respondent speaks English fluently.