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

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This paper conducts the Cox-type survival analysis of Japanese corporate firms with using the census-coverage data collected by METI in the mid-1990s. The analysis with careful treatment of exiting firms confirms a number of peculiar features of Japanese firms claimed in the academic and semi-academic literature.

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

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

Third, we find that corporate performance matters in the choice of exits for affiliate firms, but

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it does not in the survival/exit of independent firms. We must cast doubt on the possible malfunctioning of market mechanism in the exits of independent firms. With observing the low level of turnover ratios in Japan, we definitely need to provide economic environment where corporate turnovers are easier and efficient.

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

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