The Impact of Japanese Investment on the New Town of Milton Keynes

by

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Glossary of Abbreviations

CNT	Commission for New Towns (UK)
DTI	Department of Trade and Industry (UK)
EC	European Community
FDI	Foreign Direct Investment
HRM	Human Resource Management
JETRO	Japan External Trade Organisation
JIT	'Just-In-Time' production
JV	Joint Venture
M & A	Mergers & Acquisitions
MD	Managing Director
MITI	Ministry of International Trade and Industry (Japan)
MK	Milton Keynes
MKDC	Milton Keynes Development Corporation
MNE/MNC	Multinational Enterprise/Corporation
MoF	Ministry of Finance (Japan)
PACEC	PA Cambridge Economic Consultants
R & D	Research & Development
SMEs	Small and Medium-size Enterprises
SSCs	Service Sector Companies
TNC	Transnational Corporation
UN	United Nations
UNCTC	United Nations Centre for Transnational Corporations
US SIC	United States Standard Industrial Classification

PREFACE
Structure of the Dissertation

CHAPTER 1: Introduction

The first chapter highlights the importance of foreign direct investment (FDI) to the global economy, providing a brief summary of the UK's international position. The chapter also provides background information about the new town of Milton Keynes and outlines the extent of foreign investment into the city.

CHAPTER 2: Theories of FDI and the Japanese firm

Chapter 2 explains the reasons why Japanese FDI has been directed to the EC and the UK in particular. It then goes on to assess the various theoretical frameworks that have been devised to account for these investment flows. These include both micro and macroeconomic theories and also work on the transnationalisation of service industries.

CHAPTER 3: A survey of the impact of FDI upon the UK economy

The third chapter notes that attracting inward investment has been seen to be politically desirable in the UK due to its perceived economic benefits. However, these benefits have been disputed by some academic commentators, and this chapter outlines the theoretical debate before proceeding to review the extant empirical work on Japanese investment into the UK.

CHAPTER 4: The research project and methodology

Having argued in Chapter 3 that the focus of the extant empirical work has been somewhat misplaced, this chapter outlines the research programme followed in investigating the impact of Japanese investment on the Milton Keynes economy.

CHAPTER 5: An assessment of Japanese FDI into Milton Keynes

Chapter 5 presents the results obtained from the research project and draws conclusions about the impact Japanese investment has had upon Milton Keynes.

CHAPTER 6: Conclusions and policy prescriptions

The final chapter summarises the dissertation and draws preliminary conclusions on the effect Japanese investment has had upon the UK and EC as a whole. As a result of this, some policy options are prescribed.

CHAPTER 1
Introduction

> *"Milton Keynes … has been the fastest growing town in the UK for about 20 years. You certainly don't get sustained growth over 20 years if it's not what people want."*
> John Walker, then Chief Executive of the Commission for New Towns, 1994[*]

Foreign direct investment (FDI) is pivotal to the UK economy, with the UK being both the second largest investor abroad and the second largest host to foreign companies.[1] Although since the Second World War FDI has been dominated by the USA, the more recent rise of Japan as both an international force in global markets and as an investor,[2] has seen increasing amounts of Japanese FDI being directed towards the UK. Further, the perceived innovativeness of Japanese work organisation is held by many to have an even greater qualitative impact than the quantitative significance of Japanese FDI would indicate, providing both a 'demonstration' effect and a competitive spur to indigenous companies that it is believed has the power to transform the UK's competitiveness.

However, many aspects of the 'Japanese challenge' have become mythologised, and it is important not to simply take these claims as axiomatic, especially as Government policy - including financial inducements to inward investors - are based upon these assumptions. Therefore, this dissertation uses primary and secondary research to assess the impact Japanese investment has had upon the new town of Milton Keynes (MK), which is the home to a significant cluster of Japanese investors, with a composition that broadly reflects FDI into the UK from Japan as a whole. The conclusion is that although there have been benefits in terms of employment, any positive transformative effect upon either indigenous industry or human capital has been limited. Further, the structural weakness in skills of the UK economy mean that Japanese investment may impose longer-term costs upon UK welfare.

The rest of this chapter provides a brief summary of the international situation regarding FDI, with especial attention to the position of the UK. The chapter also gives a

[*] cited in CNT (1994a:5)

[1] See Appendix 1 for the definition of FDI.

[2] Although, as Mark Mason (1994) is at pains to point out, contrary to both popular and academic perceptions, Japanese FDI has a long history, with investments in Europe since the late nineteenth century.

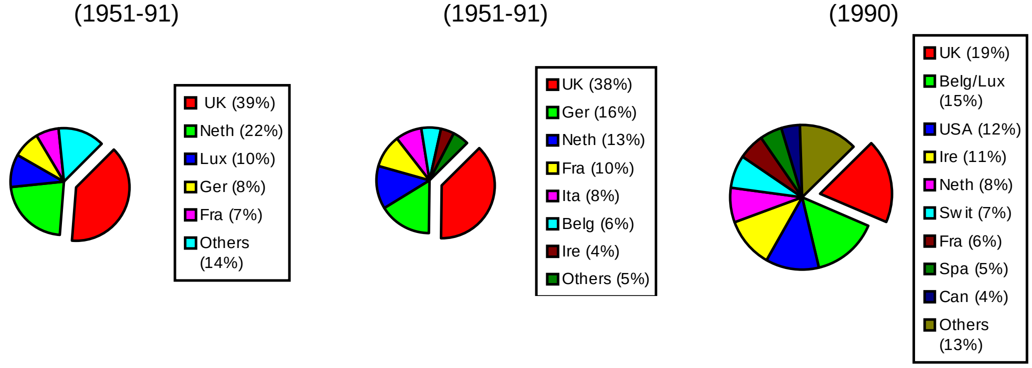
picture of the new town of Milton Keynes and outlines the extent of foreign investment into the city.

FDI and the UK economy

Foreign direct investment has increased twentyfold since the 1960s, growing much faster than either world trade or output: such that the world stock of FDI totalled $2.1 trillion by 1995 (Cm 2867 1995; Coyle 1996; Nicolas 1995). The UK has been a central player in this process, with absolute levels of both inward and outward FDI second in the world only to the USA. Inward investment in 1993 totalled £119,935 million, while the UK's proportion of GDP invested abroad is more than double that of any other major investor, at £165,166 million (Central Statistical Office and Overseas Direct Investment data; Cm 2867 1995). Although such high levels of outward investment are obviously a central feature of the UK's competitiveness, this study will focus only on the impact of *inward* investment (cf. Julius 1990).

FIGURE 1.1:

Japanese Direct Investment in the EC (1951-91) — ***US Direct Investment in the EC*** (1951-91) — ***German Direct Investment Abroad*** (1990)



Source: Japanese MoF — *Source:* US Department of Commerce — *Source:* Ministry of Economics, Bonn

adapted from CNT (1994a)

The three primary investors into the UK have been the USA, Japan and Germany (Cm 2867 1995). The UK has been the most successful country in the EC at attracting investment from the USA and Japan, at a near 40% share for each, and the most popular destination in the world for German investment (see Figure 1.1 above). In absolute terms, however, the USA has been by far the predominant source of inward investment into the UK. Japan, by contrast, only accounted for 4% of the total stock in 1990, and 2.9% of direct flows into the UK between 1990 and 1994 (Eltis & Fraser 1992; FM&I 1996). (Conversely, approximately half of Japan's worldwide investment has gone to the USA; JETRO in Nicolas 1995.) However, Japanese investment has tended to cluster sectorally and/or geographically: for example, apart from in Milton Keynes, in the electronics industry of South Wales and central Scotland, and in motor vehicles in the Northeast (Eltis & Fraser 1995; Morris 1988). As a result, the impact upon certain regions and industrial sectors would seem to be greater than the aggregate, national level figures would suggest.

The New Town of Milton Keynes

> In 1967, 22,000 acres of north Buckinghamshire countryside were designated as the site for Britain's newest city. The city would incorporate the existing towns of Bletchley, Wolverton and Stony Stratford as well as several smaller villages, and would take the name of one of these villages - Milton Keynes (CNT 1995b).

Milton Keynes is located approximately half way between London and Birmingham on the M1 motorway and the West Coast Mainline railway, providing a central location and good communication links (see Map 1.1 below). The current population of the town stands at approximately 153,000 people (CNT 1995a). The City Plan itself, instigated in 1969, is based on a grid system of roads, with each grid designated as a residential, leisure (including open space), or business area; with these business areas including 31 'industrial estates'.

As a new town there existed a Development Corporation (MKDC) - now superseded by the Commission for New Towns (CNT) - with the remit to attract investment, including foreign investment, to the area. The promotion of Milton Keynes has been proactive, involving a dedicated Marketing department with international agents responsible for the USA, Japan, Germany, Taiwan, Korea and Hong Kong (MK World Development Education Centre 1994). By 1995, 9% of establishments in Milton Keynes had overseas parents (Milton Keynes & North Bucks Chamber of Commerce Training & Enterprise 1995a). A breakdown, by country, of the foreign companies located in Milton Keynes in 1994 is contained in Table 1.1, below.

As can be seen from the table, parallel to the UK as a whole, by far the most dominant investor is the USA, with over two times as many affiliates as the next largest investor, and over a third of all investment into Milton Keynes. The second biggest investor, followed closely by Germany, is Japan, with approximately 16% of total investment. Furthermore, investment grew by 7% in the two years between 1992 and 1994, with two-thirds of the countries exhibiting an increased involvement in Milton Keynes and only two countries reducing their involvement. This trend has continued in the case of Japanese companies, which, by January 1996, totalled 51 in number (including the Nissan European Technology Centre in the Milton Keynes environs; CNT 1996 - see Table 5.1 for a list of Japanese companies in MK).

TABLE 1.1:
Overseas subsidiaries/associates in MK designated area

Country	1992*	1994#	Change
Austria	0	1	+1
Australia	5	8	+3
Belgium	1	1	-
Canada	4	4	-
China	0	1	+1
Czech Republic	0	1	+1
Denmark	6	8	+2
Egypt	1	0	-1
Finland	6	7	+1
France	14	16	+2
Germany	40	41	+1
India	0	1	+1
Ireland	2	2	-
Italy	8	10	+2
Japan	**43**	**47**	**+4**
Jordan	1	1	-
Korea	1	1	-
Libya	1	1	-
Luxembourg	0	2	+2
Netherlands	8	11	+3
Norway	4	5	+1
Qatar	0	1	+1
South Africa	3	2	-1
Spain	2	2	-
Sweden	19	21	+2
Switzerland	8	14	+6
Taiwan	0	1	+1
USA	83	100	+17
Total°	**260**	**289**	**+19**

* *Source*: Milton Keynes Development Corporation (January 1992)
\# *Source:* Various including Milton Keynes Chamber of Commerce
° Companies linked to more than one country are only counted once
adapted from MK World Development Education Centre (1994)

These foreign companies form part of a subset of a total population, as of 1 April 1995, of 3,487 establishments. Therefore, Japanese subsidiaries represent nearly 1½% of establishments in Milton Keynes, and Chapter 5 analyses these subsidiaries in terms of their sector, size, and employment features in comparison with these features of the Milton Keynes economy as a whole.

MAP 1.1:
The strategic location of Milton Keynes

© CNT

CHAPTER 2
Theories of FDI and the Japanese firm

> *Transnational corporations have become central organizers of economic activities in an increasingly integrated world economy.*
> United Nations, World Investment Report 1992*

The UK has been the primary location within the EC for Japanese investment, receiving 39% of the inflow between 1951 and 1991 (see Figure 1.1; Japanese MoF in CNT 1994). The composition of this investment has been predominantly in the tertiary sector (76.4%), with manufacturing comprising 20.4% and the primary sector 3.4%; broadly reflecting the composition of total FDI flows from Japan (MoF in Nicolas 1995; UNCTC 1992). Of the research that has been undertaken, it would seem that a primary reason for the dominance of the UK has simply been the English language, together with a legal and cultural affinity with Japan (Auerbach 1988; Julius 1990). However, the greater deregulation of the UK financial services market, the freedom from exchange controls for MNCs, and the welcoming attitude of the UK Government since 1979, in comparison to other EC countries, are also believed to be important factors (Julius 1990; Strange 1993). In terms of the initial decision to locate in Europe though, market access is seen as the key, especially because of (or fears of) growing EC protectionism; with the pursuit of a globalisation strategy and increasing European demand being important secondary factors (PACEC 1995; JETRO 1983, 1990 & 1992 in Sachwald 1995). Low wages are rarely cited by Japanese firms as a reason for location within the EC, and indeed the EC has now overtaken the lower wage economies of South East Asia as the second largest recipient of Japanese FDI, behind the (high wage) US economy. Nonetheless, Japanese investment inside the EC has been dominated by the relatively low wage economies of the UK and Spain (Nicolas 1995); and within the UK itself, there has been significant clustering of Japanese manufacturers in the assisted regions, with wage rates relatively lower still (Eltis & Fraser 1992; Morris 1988; Young et al. 1987). The final notable feature of Japanese FDI has been a preference for 'greenfield' investment and 100% ownership, which account for half of Japanese investments, whilst joint ventures and acquisitions comprise

* Transnational Corporations and Management Division (1992:1)

only 25% and 20% respectively (JETRO in Nicolas 1995; Strange 1993; Yamawaki 1994).

However, in order to understand, rather than merely explain the nature of Japanese FDI into the UK, it is necessary to review the extant theoretical literature regarding Japanese investment. The traditional account of international production was that differential interest rates across the world encouraged capital to undertake ‘portfolio’ investment. As a result, capital scarcity in the underdeveloped countries was seen as returning higher interest rates than the capital abundant advanced nations, leading to investment flowing from the developed to the developing world (often following colonial lines). However, after the Second World War, this pattern broke down, and FDI flows rapidly became concentrated *within* the developed world, and in certain industrial sectors (Cantwell 1991). It was Stephen Hymer (1976:27-8), in the late 1950s, who was the first to critique traditional macroeconomic accounts, arguing that the “theory of international operations is part of the theory of the firm.”

As a result of his work (see Yamin 1991), two competing microeconomic theories of the multinational firm have been developed: the orthodox transaction cost approach with an efficiency dynamic, and a radical alternative that sees power and distributional considerations as central. However, some Japanese academics have argued that these ‘Western’ theories do not explain the observed pattern of Japanese FDI. Thus they have resurrected a macroeconomic explanation for FDI, which, together with the theory of globalisation and global localisation, is assessed in the penultimate section. Finally, the concluding section contains a critique of the limited literature that exists on tertiary sector investment.

MICROECONOMIC APPROACHES:
The transaction cost theory of Japanese MNCs

Although inspired by the seminal work of Hymer (1976), transaction cost (or ‘internalisation’) theory can be derived from first principles from the work of Coase (1937). Coase argued that the existence of a firm meant that *internal* administrative coordination must have economised, in Williamson’s (1975) contemporary terms, on the ‘transaction costs’ of using the external price mechanism, or the situation would represent a Pareto-inefficiency and the firm would be competed out of existence. Internalisation theorists argue that this analysis implies firms may gain competitive advantages over their rivals, including their competitors overseas. Extending the idea of market imperfection, they also argue (as Hymer originally observed) that operating overseas incurs greater transaction costs than operating domestically (due to differences in language, government regulation, etc.). Similarly, the international market for competitive advantages is also regarded as highly imperfect, especially for intangible assets and technology, such that arms-length transactions like licensing and franchising may diffuse the rent from the advantage. Therefore, a firm may still find it more profitable to 'internalise' these external markets, by expanding their operations overseas through FDI, despite the higher costs of international operations (e.g. Buckley and Casson 1976; Hennart 1991; Williamson 1981).

The competitive advantages of Japanese firms over their foreign rivals are widely held to be twofold (with some commentators also highlighting the importance of Government industrial strategy; see Cowling 1990). Firstly, Japanese companies are seen as having successfully adopted Western technical innovations, standardising products, and mass producing them at a lower cost than their Western rivals, especially in motor vehicles and electronics (Aoki 1990; Cairncross 1994; Porter 1990; Yamashina 1995). The second basis is seen as Japan's innovative internal organisation, especially production techniques and human resource management. Techniques such as just-in-time 'lean production' are believed to increase flexibility and efficiency, reduce inventories, and improve product quality in comparison to Western ('Fordist') mass production (Aoki 1990 and Womack et al. 1990). The Japanese employment system - based upon the 'three treasures' of lifetime employment, seniority based wages and promotion (*nenko*), and enterprise unionism (Aoki 1984; Moore 1987) - internalises the external labour market, with the union providing a collective 'voice' for workers (Muramatsu 1984; Freeman 1984). Such a system is seen as microeconomically rational, increasing efficiency by reducing the recruitment and training costs of labour turnover, and decreasing the incentive for opportunistic behaviour, resulting in information sharing and thereby increasing flexibility and productivity (Williamson 1975; Aoki 1990).

From the perspective of internalisation theory, the first competitive advantage, of ameliorative technical development, does not provide a rationale for FDI, as exporting should be just as profitable. However, the market for Japanese imports has been rendered highly 'imperfect' by the imposition (or threat) of tariffs and quotas in the EC and the USA (Auerbach 1988). The second advantage of internal organisation (as an intangible asset) is difficult to license abroad, implying the need for FDI. Therefore, if Japan's competitive advantage in goods is believed to be underpinned by 'Japanese' production and human resource management techniques, Japanese companies have effectively been forced by trade barriers to 'internalise' international trade by establishing production facilities in the US and EC. Thus, internalisation theory casts Japanese MNCs as promoters of global efficiency and welfare: by bypassing international market imperfections, Japanese multinationals are seen as having provided better products for consumers, increased productivity in host countries through the use of more efficient techniques, and as a result provided both a competitive spur and a 'demonstration' effect to non-Japanese companies.

However, this analysis is problematic both conceptually and empirically. For example, Richardson (1972) argues that Coase's dichotomy between firms and markets ignores the complex of links between firms that operate outside the scope of the market mechanism. Kojima and Ozawa (1984) argue that this analysis is especially relevant to Japanese MNCs, which operate 'cooperative networks' of associated companies overseas, exhibiting trust-based 'stewardship relationships' rather than internalised hierarchical coordination (cf. Williamson 1975). Furthermore, Coase's (1937) analysis is underpinned by the principle of 'voluntary exchange', denying the ability of one economic agent to wield power over another. However, if this presumption is dropped, then institutional forms are likely to reflect the 'efficiency' of those groups in society that wield economic power, regardless of the effect upon other actors in the economy. In such a situation, the assumption of Pareto-optimality becomes indeterminate and distributional considerations become primary (Sugden 1991). Radicals argue that the efficiency dynamic of the Coasian firm-market dichotomy obscures the issue of *control* that is central to (even the *raison d'être* of) multinational operations (see Hymer 1976). Taking the example of subcontracting, Cowling and Sugden (1987) argue that multinationals may dominate the sales of independently owned subcontractors to such an extent as to be effectively in control, despite the intermediation of the market mechanism.

Empirically, it has also been found that many perceptions of Japanese firms do not stand up to scrutiny. Firstly, although the 'three treasures' model of HRM is extended to both blue-collar (*koin*) and white-collar (*shokuin*) workers, this is only within large firms in certain manufacturing sectors, to the total exclusion of women. As a result, only around 20% of the workforce actually experience what has popularly become known as 'Japanese' employee relations, casting doubt upon the overriding efficiency imperative of the system (Franko 1983; Moore 1987; Sethi et al. 1984). Although some Japanese scholars have argued that this labour market 'dualism' is economically rational, as large Japanese firms provide regular employment and seniority wages to those workers who have been imparted with a wide range of firm specific skills, whilst denying them to those that do not (Koike 1984), Jacoby (1979) argues that this economism is unable to explain the observed development of internal labour markets in Japan. Jacoby notes that internal labour markets were only introduced initially to protect profitability in the face of the backward sloping labour supply curve (i.e. the substitution of work for leisure at higher wage levels) of the Japanese craft guilds (the *oyakata*). After the Second World War, internal labour markets - together with the introduction of enterprise unionism - were only extended to semiskilled workers, the group to whom it was most microeconomically rational to apply the system, to counter the rise of powerful (and often radical) independent unions (also Beynon 1984; Eccleston 1984; Moore 1987). Thus, shifting power relations and the *relative share* of profit were the prime dynamics, rather than efficiency per se.

Similarly with 'Japanese' production methods, research has found that their diffusion has been highly uneven, with only a few manufacturers, such as Toyota, serving as corporate exemplars. Even here, however, it has been argued that 'Toyotism' is primarily a method of work intensification that *extends* rather than replaces the logics of 'scientific management' (Dohse et al. 1985 in Elger & Smith 1994a); whilst also requiring more *standardised* product runs than supposedly inflexible Fordist mass production (see Coffey 1995a; 1995b). Further, both orthodox and radical economists have argued that the idea of using Fordism as a benchmark is highly problematic, because it overgeneralises and idealises the more complex and contradictory reality of Western production modes, even within the Ford company itself (see Elger & Smith 1994a; Nielsen 1994; Nolan 1994).

The corollary of all this is that most Japanese companies operate neither 'Japanese' production nor human resource management systems. Moore (1987) claims that the employee relations system in Japanese SMEs - which account for approximately 75% of employment and encompass the greater part of the service sector (Whittaker 1990) - does not differ essentially from that found in the other industrialised countries: with no lifetime employment guarantees, market-based 'ability' wages rather than *nenko*, and very few (and weak) enterprise unions (cf. Koike 1984). Further, much of the employment in services and SMEs has been 'feminised' due to the exclusion of women from the 'regular' workforce, allowing management to pay far lower wages for equivalent work. Consequently, as two-thirds of FDI from Japanese companies is within the tertiary sector, and there is a greater predominance of multinational SMEs from Japan than amongst Western MNCs (Dicken 1992), it is not clear how far Japanese FDI can be explained by the internalisation of organisational advantages. Franko (1983) argues that it is Japan's geographical compactness but large and homogenous *home market* - allowing the exploitation of economies of scale and encouraging miniaturisation - that has been the primary source of competitive advantage, rather than the mythologised images of Japanese work organisation. However, as noted above, radicals argue that this concentration upon markets and efficiency ignores the issues of power and distribution that have historically been the driving forces behind capitalist development, and should therefore be applied to any analysis of MNCs.

Power and distribution

The second microeconomic approach draws from an alternative theory of the firm, based upon Marglin's (1976) work on the transition, during the UK 'Industrial Revolution', from the 'putting-out' system to hierarchically organised factories. Marglin argued that although the 'internalisation' of production in factories increased output and decreased costs (i.e. it was *cost* efficient, or alternatively, profitable), this was achieved by an increase in inputs, especially from labour, and thus the effect on *productive* efficiency (the ratio of inputs to outputs) is indeterminate. Further, as workers of the time (like the Japanese *oyakata*) exhibited a backward sloping labour supply curve, and therefore experienced a decrease in utility, the situation represented a Pareto-*in*efficiency. Drawing from this insight that the world is not characterised by voluntary exchange, it is argued that organisational choices are determined by the economic interests of those wielding economic power, rather than the pursuit of 'efficiency' per se (Sugden 1991).

It was again Hymer (1976) who first noted that FDI represents a method (amongst others) of *controlling* an overseas firm, and as a result he regarded multinationalism as a means for national firms to monopolise international markets. However, in oligopolistic international markets, MNCs recognise that any attempt to drive out their rivals will provoke retaliatory price-cutting that will leave every firm worst off. Thus, Cowling (1982 in Cowling & Sugden 1987) argues, the result is tacit collusion in coexistence with rivalry. As such, MNCs are seen as existing to maximise *profits* internationally, rather than being an efficient method of exploiting competitive advantages, as internalisation theory regards them. It is also argued that the international segmentation of a MNC's workforce, in tandem with the (potential) mobility of capital vis-à-vis the relative inertia of labour, increases the bargaining power of the MNC over its workers, allowing an increase in the relative share of profit (Cowling & Sugden 1987; Sugden 1991).

In the case of Japanese FDI, there has indeed been a tendency to locate manufacturing subsidiaries in Asia and certain areas within the EC, such as the assisted regions in the UK, where wages are relatively low and labour is weak. Also, reports of management exhortations to match the productivity of Japanese plants are common (e.g. Popham 1996), implying at least a weak form of 'divide and rule' strategy. However, this is unable to explain why the low wage Asian economies have declined in the face of the EC as a host for FDI; nor why, within the EC itself, the second most popular destination for manufacturing employment has been Germany, with far higher labour costs than either the UK or Japan itself (MoF & MITI in Nicolas 1995; Neale 1992). Indeed, the fact that Japanese manufacturers have established in the EC at all, with the majority of Japanese investment going to the high wage US economy, implies that overcoming trade barriers has been the primary motivation for FDI. Although it would seem that Japanese entry has increased the monopolisation of certain market sectors, especially motor vehicles and consumer electronics, whether this has been the result of monopolistic or competitive advantages is a matter for debate: especially, as noted above, that Japanese success has often been based upon mass producing *Western* innovations. Nonetheless, there is evidence that Japanese investors have established 'cooperative' networks of firms (*keiretsu*) within the EC and USA (Gittelman & Graham 1994), providing some support for a belief in collusive behaviour amongst Japanese MNCs (cf. Kojima 1978).

However, the 'monopoly capitalism' paradigm of the approach places its emphasis upon *large* manufacturing firms that, as already argued, are not typical of Japanese investment, which is dominated by relatively small and/or tertiary sector firms (Dicken 1992). Further, as the vast majority of large Japanese manufacturers (e.g. Nissan and Toyota) have now gained a 'foothold' in Europe, inward investment into the EC is likely to show an even greater bias towards SMEs and the service sector (Hirst & Thompson 1996; Milton Keynes & North Bucks Chamber of Commerce Training and Enterprise 1995). Thus again, like internalisation theory, it is not clear how far the approach can explain the *observed* pattern of Japanese investment.

MACROECONOMIC APPROACHES:
The 'Japanese model'

This idea that neither of the microeconomic theories elucidated above are representative of Japanese FDI has been taken up in the work of some Japanese academics. Both Kojima (1978) and Ozawa (1979), for example, have argued that 'Western' theories of FDI are able to explain the concentration of US investment within the technologically advanced oligopolistic sectors of the advanced economies, but are unable to explain Japan's FDI into Southeast Asia within competitive, less technologically sophisticated sectors. Kojima's stance (drawing from Johnson 1972) is that FDI not only transfers capital, but also a 'package' of resources, such as technical and managerial assets, that are specific to the home country; whilst gaining access to the factor endowments of the host country in return. Therefore, the transfer of comparatively disadvantaged industries from advanced countries into less developed countries, where they are relatively advantaged, not only provides a greater return on the home country's assets due to cheaper factor costs, but also increases the efficiency of the host country. From such a perspective, FDI can act to alter the industrial structure of the home and host countries along the lines of comparative advantage, thereby increasing trade and maximising global economic welfare by exploiting economies of specialisation. In this vein, Kojima argues that the 'Japanese model' of FDI into Southeast Asia has been 'trade creating', whereas the import substituting nature of US investment in the advanced economies is 'anti-trade oriented' and has reduced global welfare.

However, the approach has been unable to explain the rapid changes in the pattern of Japanese investment that have occurred since the 1960s, with two-thirds of FDI now remaining within the advanced economies, such that it now mirrors the so-called 'American model (MoF in Nicolas 1995). Further, as argued above, the *primary* rationale for much Japanese FDI into the US and EC has been the substitution of imports to overcome protectionist pressures, and is therefore intentionally anti-trade oriented. Essentially, the Kojima-Ozawa approach is the model of the rapid growth of a newly industrialising country, and as such is historically specific (Cantwell 1991). Morris (1991a; 1991b) argues that Japanese FDI is exhibiting a two-stage development process, and Kojima and Ozawa are, effectively, only describing the first 'globalization' stage. However, as Japanese investment patterns converge with those of the US, a second 'global localization' stage can be discerned, whereby Japanese companies become 'insiders' in the European economy in the manner large US corporations have done.

'Globalization' and 'Global Localization'

During the 'globalization' strategy of gaining market access and/or exploiting low labour costs, Japanese manufacturers established overseas assembly operations closely controlled and sourced by Japan (see Morris 1988 for the UK). However, Morris argues, Japanese MNCs are now entering a second phase of 'global localization', whereby Japanese manufacturers 'deepen' their investments abroad: by transferring component manufacture, R & D and some strategic decision making, plus making a greater use of local suppliers (Morris 1991a:3 terms this "full manufacture"). The driving force behind this development is seen as the need for Japanese MNCs to be as close to their markets as possible to be able to flexibly adapt to local conditions.

However, this notion of the 'flexible transnational' (Robins 1989 in Morris 1991) is very much underpinned by the benchmark concept of the *in*flexible 'Fordist' MNC. As argued above, this is a highly problematic assumption, and thus it is not clear how legitimate it is to differentiate a model, 'flexible' MNC from a similarly idealised inflexible multinational. Furthermore, this concentration upon manufacturing obscures the *form* shifting patterns of Japanese FDI has taken. Critics of Kojima and Ozawa have ignored their observation that Japanese FDI into the advanced economies was dominated by small-scale, 'trade-related' tertiary investments, rather than manufacturing per se; and more recent empirical work suggests that this is still the case (see Chapter 5 regarding MK; and Loeve et al. 1985 and Stam 1987 for the Netherlands). Therefore, it would seem that any balanced theoretical framework of Japanese FDI needs to be able to account for the tertiary sector.

Tertiary sector investment

The globalisation process has come to be dominated by the service sector, with the growth of tertiary FDI outstripping traditional primary and secondary sector FDI, to reach levels, by the end of the 1980s, of 55-60% of total FDI flows and nearly half of the world's FDI stock[3] (Transnational Corporations & Management Division 1993). Indeed, despite a common accusation that Japan has a weak service sector - both domestically (e.g. Elger & Smith 1994a) and internationally (e.g. Porter 1990) - it has seen the most pronounced internationalisation of the tertiary sector in the world. Japanese tertiary FDI has grow 28% since 1976, reaching a level of 67% by 1990: a far greater proportion than any of the other advanced economies (Transnational Corporations & Management Division 1993).

This tertiary sector expansion has taken two forms. Firstly, there has been a growth of multinational service companies, especially in banking and finance. For example, by 1989, Japan was home to 17 of the world's 25 largest commercial banks (Dicken 1992). However, as noted above, there has also been a growth of 'trade-related' tertiary investment: both through direct investments in sales, service and distribution outlets by Japanese manufacturers, and through independent investments by Japan's trading companies, the *Sogo Shosha* (who include the five largest corporations in the world in sales terms; Business Week 1992 in Mirza 1993).

However, whilst the first type of 'pure' service sector FDI has resulted in the emergence of a theoretical literature, there has been virtually no attempt to theorise tertiary sector investment directly linked to manufacturing (though see Kojima & Ozawa 1984 for some theoretical analysis of the *Sogo Shosha*). Furthermore, the work that has been undertaken regarded the internationalisation of services has been dominated by Dunning's 'eclectic paradigm': which marries the internalisation of firm specific advantages with the concept of the location specific advantages of different host economies in order to understand international production (e.g. Buckley et al. 1992; Clegg 1993; Enderwick 1987; Transnational Corporations and Management Division 1993). However, Dunning (1991) himself concedes that his 'paradigm' is merely a framework for understanding internationalisation and does not represent a general *theory* of FDI (cf. Dunning 1979). Also, despite its greater conceptual sophistication, the fundamental theoretical foundation of the paradigm remains internalisation, and as the section above showed regarding manufacturing investment, this is subject to considerable criticism. Since it has been argued that the rationale for service sector FDI is essentially the same as that for the primary and secondary sectors (see Clegg 1993 and Transnational Corporations and Management Division 1993), a critical appraisal of the extant literature

[3] Furthermore, various statistical problems inherent to the measurement of service sector activity mean that these figures may well understate the true extent of FDI in the tertiary sector (United States Office of Technology Assessment 1986 in Porter 1990; UNCTC 1990).

is necessary in order to advance the theoretical framework. As such, it would seem that considerable conceptual development is necessary before it is possible to make a rounded theoretical assessment of Japanese FDI into the EC that can fully take into account the importance of the tertiary sector.

CHAPTER 3
A survey of the impact of FDI upon the UK economy

> *ALPS has combined the best work practices of Japan and Britain to create a flexible manufacturing environment ideally suited to meet customer needs.*
> CNT Opportunities, 1994

There is, and has been since the early 1970s, a political consensus that inward investment into the UK has positive benefits and should be encouraged. The current Government has, as a matter of policy (see Cm 2867 1995), deliberately attempted to provide a relaxed regulatory environment[4] (and curbed the powers of the trade unions[5]) in order to encourage international business in the UK.[6] Japanese investors, in particular, have received an extremely warm welcome due to their: “new skills, new ideas and techniques, new management practices and new manufacturing strategies, all of which have had a major and beneficial influence on business” (Peter Lilley, when Trade and Industry Secretary, cited in Peck & Stone 1993:64). Further, it seems unlikely that an incoming Labour Government would deviate to any great extent from this stance.

Despite this political consensus however, academic opinion is more divided. Although the theoretical orthodoxy is that inward FDI is good for the UK economy, there exists a significant minority critique of this position. Therefore, this chapter outlines the theoretical debate, and then proceeds to review the extant empirical work on the impact of inward investment, especially from Japan, upon the UK economy.

[4] Including the lowest corporation tax and payroll charges in Europe (Eltis & Fraser 1992).
[5] For instance, in a promotional brochure for US business, the government’s Commission for New Towns (CNT 1994a:4) boasts that the UK has, “no requirement to recognize a trade union [or] works council”, “[u]nion membership has fallen”; “labor disputes [have] steadily declined, especially in the private sector”; collective bargaining is “not legally binding”; “there is no minimum wage [and] virtually no statutory restrictions on length of holidays, overtime, length of working week or nighttime [sic] work.”
[6] The only major counter to this is the current uncertainty over the Conservative Party’s commitment to the European Union.

The theoretical debate

The orthodoxy regarding inward investment is that it has the potential to bring both direct short-term and indirect long-term benefits to the UK economy. In the short-term, inward investment is believed to increase employment and improve the balance of payments, by increasing exports. Moreover, foreign MNCs may introduce new technology, management practices and production techniques, having a longer-term positive transformative effect upon dynamic competitiveness (Dunning 1985; Strange 1993). Japanese investment is regarded as particularly innovative, pioneering the use of highly efficient 'lean production' methods and paternalistic human resource management practices, in direct contrast to the rigidities (often imposed by confrontational trade unions) and inefficiencies of traditional Western mass production techniques. The benefits of this are seen to be manifold: firstly, the demands of Japanese manufacturers are believed to improve the quality and productivity of indigenous suppliers; whilst secondly, consumers are offered higher quality products at lower prices; in turn providing both a competitive spur and a 'demonstration' effect of best practice to domestic industry (Auerbach 1988; Eltis & Fraser 1992; Womack et al 1990). Thus the net impact of inward investment is taken as being indubitably beneficial, leading to rises in efficiency and welfare.

However, this analysis is disputed by those who argue that MNCs, especially Japanese MNCs, generally retain design and strategic decision making functions at home, and only transplant 'branch-plants' overseas. These 'screwdriver assembly' operations, established primarily to circumvent trade barriers, utilise standardised (not leading edge) technology, and often import materials, components and sub-assemblies rather than buying them locally (Auerbach 1988; Knell 1993; Strange 1993). A further charge against Japanese MNCs is a tendency to fill the senior management positions within their subsidiaries with expatriate staff (Knell 1993).[7] These tendencies are regarded to have been particularly prevalent in the UK because of the relatively low cost of labour, encouraging MNCs to locate their lower skilled, more labour-intensive parts of the manufacturing process within the UK, whilst the more skilled or capital-intensive aspects are sited in Japan, the USA or Germany (Fine & Harris 1985; Knell 1993; Nolan & Walsh 1995). Thus, it is argued, value-added from the UK represents only a small proportion of the output of foreign subsidiaries, with associated negative effects upon domestic industry, skills formation and possibly the balance of payments. Even if foreign subsidiaries do improve the trade balance in the short to medium-term, over the longer-term, the ability to pay for imported goods through unearned income may diminish the incentive to upgrade domestic productivity and production inputs (Ietto-Gillies 1993). From this perspective, MNCs are

[7] This is currently a burning issue in the UK, with several UK managers suing (successfully) their Japanese employers for racial and sexual discrimination (see Jury 1996 and Popham 1996).

seen as drawing upon the structural weaknesses of the UK economy, thereby reinforcing them, and as a result exacerbating and perpetuating the UK's relatively disadvantaged competitive position (Fine & Harris 1985; Knell 1993; Nolan & Walsh 1995). As such, the predominance of inward investment is seen as both a cause and a symptom of the UK's economic decline.

In order to make any assessment of these debates however, it is necessary to refer to the research that has been undertaken into the impact of foreign investment upon the UK. Thus the next section reviews the extant empirical work, with a particular focus upon Japanese FDI.

The empirical literature

The first study to tackle the issue of Japanese investment was John Dunning's (1986) investigation of Japanese *manufacturers*, undertaken for the Department of Industry. Dunning surveyed 23 of the 26 Japanese affiliates within the UK at the time, together with 20 of their suppliers and 12 of their competitors, between July 1983 and March 1984. Dunning (1985; 1986; utilising his 'eclectic paradigm' of international production) found that MNCs in general, and Japanese MNCs in particular, assisted the UK's industrial restructuring by investing in skill or technology intensive sectors and recording higher productivity than their indigenous counterparts. The presence of Japanese affiliates was also believed to have had knock-on effects on the quality and efficiency of domestic suppliers and competitors. However, Dunning (1985:17; and 1986), also issued a stern warning regarding the potential long-term damage that Japanese investment could pose for the UK:

> Japanese MNEs are participating in Europe as part of a long-term world wide strategy. Their aim is to dominate such sectors as electronics and motor vehicle manufacturing. However much the UK may gain in the short term through more employment in Japanese subsidiaries, if these act as a Trojan horse, not only driving out competition but also through their design policies, and their insistence that purchases should be made from Japanese component suppliers (or their affiliates in the UK), a lot of high value added activity will be lost to the UK.

This longer term perspective is taken up by Roger Strange (1993), who, on the basis of both primary and secondary research, concludes that the impact of Japanese manufacturers is likely to both broaden and deepen with potentially "substantial" benefits for the UK economy (p.411). Nonetheless, he warns that the structural weakness of an undereducated, undertrained workforce could cause the UK to lose its dominant host position if Japanese firms transfer the production of more sophisticated goods to the EC.

The result would be to leave the UK as a mere offshore assembly plant, with any higher-value added activity transferred from Japan being undertaken in countries such as Germany.

This concern is manifested in his findings: firstly, that Japanese output per capita was (very) roughly equivalent to UK industry as a whole, implying that subsidiaries from Japan have not transferred high productivity manufacturing techniques into the country. Secondly, he argued that although the local content of Japanese subsidiaries has increased, an ongoing concern with the quality of UK suppliers means that this growth has largely been achieved through increased in-house component production. Thirdly, Strange comments that Japanese companies have tended to only introduce standardised rather than cutting edge technology (he argues that joint ventures would produce greater technological benefits for the UK, but only a few of these have been established with UK companies). In terms of benefits, however, he did find that Japanese firms made a positive contribution to the UK trade balance.

Dunning's (1986) original work has since been updated by PA Cambridge Economic Consultants (PACEC 1995), again on behalf of the Department of Trade and Industry. As an annexe of a study of 30 foreign manufacturers located in the UK, PACEC (1995:Annex A) resurveyed seven of Dunning's 23 Japanese affiliates. The seven companies were all manufacturers and though many undertook marketing and distribution in the UK, design was predominantly based in Japan; with the principle reason for establishing a UK base being to capture or increase UK and European market share (especially given the appreciation of the Yen). PACEC (1995:174) found that the local content of the Japanese companies had remained virtually unchanged (at 40%) since Dunning's (1986) study: but they had fostered long-term relationships with UK suppliers and provided technical assistance, which had had a beneficial effect upon the quality and price of indigenous suppliers, and none of the negative effects of "over-rigorous" demands found in 1986. They confirmed Dunning's original finding of positive impacts upon quality and product development amongst UK competitors, though noted a loss of market share. They also reported that the Japanese companies still primarily sold their output directly to their own sales or marketing affiliates, but where domestic distributors were used, this was seen as having had beneficial impacts upon quality, distribution and marketing.

These conclusions are reinforced by the findings of the main body of research into non-Japanese investors, leading to the overwhelmingly positive conclusion:

> … that there are significant benefits that result from inward investment. Without the presence of inward investors they could be diminished. They include the development of improved management practices and improvements to the business performance of other UK companies, as well as important local economic development benefits (for example,

improvements to the local labour supply, local skills and training provisions), improvements to the UK's exporting performance and better employment opportunities (PACEC 1995:xv).

The 'Japanisation' of UK industry?

Thus Japanese inward investment is believed by its proponents to have two primary benefits: firstly, the introduction of innovative production and human resource management techniques into the UK ('direct Japanisation'); and secondly, the emulation of these techniques by indigenous companies ('mediated Japanisation'; Ackroyd et al. 1988).[8] This idea that Japanese investment has a wider impact than that of its direct operations was a theme taken up in the research of Oliver and Wilkinson (1992) into the 'Japanization' of UK manufacturing, carried out first in 1987, and updated in 1991. Using extensive postal surveys, supplemented by case studies, they argued that there was strong evidence for Japanisation at the level of individual companies, although they note that this tends to take the form either of 'Japanese' production techniques *or* 'Japanese' personnel practices, but not both together. Further, from their revised research, they conceded that the advance had not been as fast as they had originally expected, suggesting that there exist deeply rooted obstacles to the process in the UK. They also note the implications of Japanisation for the UK economy, which they argue is primarily that 'Japanese' work modes are high-dependency strategies necessitating a skilled, flexible and motivated workforce. As such, these work modes can provide more interesting and responsible work, but also a concomitant increase in the demands placed upon labour: with these benefits only being granted to 'core' workers to the detriment of labour upon the 'periphery'.

However, these conclusions have been strongly criticised on a theoretical level, as well as empirically. Elger and Smith (1994a; 1994b), for example, argue that Japanisation is a concept that needs to be deconstructed, because the conceptions that it is founded upon are themselves overgeneralisations. Thus, as was discussed in Chapter 2, there has been a tendency to overstate the extent to which Western production since the Second World War was exemplified by a 'Fordist' mode of mass production; whilst the notion of an alternative 'Japanese model' of production implies a greater degree of homogeneity than actually exists in the labour process in Japan.

From Elger's own empirical work, with Taylor and Fairbrother (1994:196), it was found that even in a Japanese electronics "transplant" in South Wales, the perceived features of the 'Japanese model', such as JIT, skilled work, and worker involvement and commitment, were remarkable only by their absence (although, as Morris 1988 notes,

[8] Although when the term of 'Japanisation' was first coined by Peter Turnbull (1986), it only encompassed the second of these concepts.

given the high propensity to import components from Japan, the use of JIT production in the UK is virtually impossible). Further, in the case of a famous UK "emulator" of Japanisation (cf. Turnbull 1986), Taylor et al. argue that union pressure, together with the underfunding of training and management short-termism, significantly diluted the adoption of 'Japanese' practices. Their conclusion is that Japanisation, even within Japanese subsidiaries themselves, has only been selective and variable, with sector conditions and the gender of the workforce being far more important factors in changes in the labour process.

This finding is supported by work undertaken by Peck and Stone (1993), in a critique of the methodology adopted by Oliver and Wilkinson. From a similar extensive postal survey to that undertaken by Oliver and Wilkinson, but focusing only on inward investors in the Northeast, Peck and Stone (and 1992) also found a wide adoption of 'Japanese' practices, amongst plants of *all* nationalities. However, from more qualitative in-depth interviews, they found significant variations in the meanings attached to, and the actual application of, these practices. Even with regard to Japanese firms themselves, they found that the application of 'Japanese' techniques covered the same gamut of actual practice as non-Japanese companies. Thus, whilst in some cases Japanese management techniques *were* an essential strategy for achieving consensus, flexibility and quality, in others they were merely 'labels' for traditional work organisation. Peck and Stone (1993:65), in line with Taylor et al., argue that this variation appears to be due to "differences in the degree of sophistication in the labour process and the skill and gender of the work force rather than 'nationality' per se" (see also Wood & Mundy 1993 in Geary 1995).

Further work into Japanisation in the Northeast has been carried out by Garrahan and Stewart (1992) in their study of Nissan in Sunderland. Garrahan and Stewart argue that cheap labour, together with the most draconian antiunion laws in the EC, have been the primary attraction of the UK for the Japanese. Further, although there has been considerable employment created by Nissan, both directly, and indirectly through a number of associated Japanese companies, this has only furnished nontransferable 'company-specific' skills, and has not provided the positive stimulus to the indigenous components industry its proponents claim (e.g. Peter Lilley, cited in the introduction to this chapter). Garrahan and Stewart also dissect the 'Nissan way' of human resource management: claiming that, far from fostering worker motivation and commitment, it represents control through quality; exploitation via flexibility; and surveillance by way of teamworking (see also Turnbull 1991 and Blyton & Turnbull 1995, who also highlight the rôle Japanese subsidiaries in general have played in introducing 'single union deals' to the UK). Knell (1993; see the introduction to this chapter) produced similar findings for a Japanese manufacturer in Wakefield, who was willing to provide significant employment opportunities for the ready pool of 'unskilled' female labour in the area, but did not furnish the skills upgrading that the Metropolitan District Council had hoped that inward investment would bring.

Conclusions

From these studies, it would seem that the overall impact of Japanese investment into the UK is rather more mixed than some of its proponents (nor as bad as some of its critics) would claim. It appears that Japanese MNCs have generally had a beneficial effect upon employment, especially in areas of declining heavy industry such as South Wales and the Northeast - though it should be noted that none of the studies undertook a systematic analysis of the net knock-on effects upon employment in non-Japanese UK companies. As Young et al. (1987) argue, without multinational investment, it is highly unlikely that these areas would have received the injections of capital, employment and industrial dynamism that they have. However, even these benefits need to be kept in perspective: in 1991, Japanese companies only directly employed, at most, 1% of the labour force in UK manufacturing. Even if they generated further indirect employment of 1 to 2% within the supply chain, as Eltis and Fraser (1993) estimate (and it is unclear how much of this employment would be attributable *only* to the presence of Japanese MNCs), this needs to be balanced against the large sums of Regional Development Grants and other Government assistance paid to Japanese firms. Although estimates of the direct assistance per (direct) job vary, from £3,000 by Dunning (1986) to £10,500 by Young et al. (1987), clearly, up to the present day, Government expenditure upon incentives to Japanese manufacturers will have run into hundreds of millions of pounds.[9] (In contrast to manufacturing however, there has been no subsidy of inward investment in the service sector; Julius 1990.)

However, the extant empirical work above casts considerable doubt over the types of employment this expenditure has created. It would appear that a great deal, if not the majority, of Japanese *manufacturing* employment has been of a low skill and technological-intensity. As a result, it seems not to have had the skills upgrading or technology transfer effects that were hoped for. Nor, by and large, do the majority of Japanese firms seem to have felt the need for the wholesale introduction of new production and human resource management techniques (excepting quasi-enterprise unionism via single union deals): adopting instead a strategy of ‘piecemeal pragmatism’ (White & Trevor 1983 cited in Morris 1988). This suggests that any ‘Japanisation’ of the UK economy has been primarily a management ideology that consolidates existing pressures for flexibility and the intensification of work, rather than being a fundamental reorganisation of production relations (see Geary 1995 and Graham 1988).

[9] Although UK policy has been to no more than match the incentives offered by other EC countries (Julius 1990).

More positively, there does appear to be some moves towards the ‘global localisation’ of Japanese production, with some transfer of component manufacture (either through ‘in-house’ production or the relocation of suppliers) and R & D activity, plus associated service industries (Cairncross 1994; Nicolas 1995; and Chapters 2, 5 and 6). However, even here, there is evidence that this has merely shifted Japanese imports from the manufacturers themselves to their suppliers (see the Secondary Case Study in Chapter 5). As a result, the overall effect upon the UK’s balance of payments is hard to determine; and although there is some reason to believe that the higher export propensity of Japanese firms means that this may well be positive, Ietto-Gillies warning (above) about the longer-term dangers of relying upon unearned income need to be borne in mind. Similarly, there is concern that the very structural weaknesses of the UK economy, highlighted by the form Japanese investment has taken into the UK, could result in higher-level activities being transferred to EC countries outside of the UK.

Thus the overall conclusion would seem to be that although Japanese manufacturing investment has provided some positive benefit to the UK economy, the absolute significance of this benefit has been slight, except in certain regions and sectors; and even these have not witnessed the positive transformation of skills and technology that were hoped for. As such, the *qualitative* significance (especially as a management ideology) of Japanese investment far outweighs its quantitative importance; but even here the evidence does not support the notion that Japanese investment has achieved a significant qualitative *impact*, in terms of a ‘Japanisation’ of UK industry. In light of this, the concentration of all of these studies exclusively upon manufacturing (except PACEC 1995, see the section below) needs to be questioned. As Table 3.1 (below) shows, Japanese inward investment into the UK has in fact been dominated by nonmanufacturing, especially financial and commercial services, and real estate.

TABLE 3.1:
The sectoral composition of Japanese FDI into the UK
(cumulative flows 1951-91 in US $ million)

SECTOR	**UK**	**% of EC total**
MANUFACTURING	5,185	35.4
Food products	135	24.7
Textiles	222	22.7
Chemicals	168	10.4
Iron & steel, non-ferrous metals	94	16.4
General machinery	713	30.6
Electric Equipment	2,120	44.7
Transportation equipment	1,338	54.8
Other manufacturing	395	30.7
FISHERY	1	25.0
MINING	867	92.0
CONSTRUCTION	35	28.2
COMMERCE	2,094	26.6
BANKING, FINANCES & SECURITIES	11,264	45.0
SERVICES	920	23.5
TRANSPORTATION	83	38.8
REAL ESTATE	4,291	53.6
OTHER SECTORS	707	74.5
TOTAL FLOWS	**25,447**	**41.2**

Source: MoF; adapted from Nicolas (1995)

The importance of nonmanufacturing investment

Although there does exist a small theoretical literature into the internationalisation of the tertiary sector (as outlined in Chapter 2), this has yet to be supported by any significant quantity of empirical research. For the UK, the PACEC (1995) report into inward manufacturing investment also contained an annexe concerning service sector companies (SSCs), as well as the study of Japanese MNCs: although only one of these SSCs was from Japan. The general findings of the report were that SSCs had produced similar, but smaller, benefits for the UK economy as manufacturing investors, and with greater adverse effects upon indigenous competitors. Another study investigated the Japanese involvement in the European financial services sector, noting that the UK has been most amenable to inward investment, and that the primary competitive advantage of Japanese banks has been the desire of Japanese manufacturers in Europe to use their services rather than those of European banks (Hawawini & Schill 1994).

More important for this study, however, is Dickens and Savage's (1988) research into 'Japanisation' in the 'boom' town of Slough during the 1980s. Dickens and Savage investigated the extent to which the career paths of the ‘service class’ of core professional and managerial workers, in both manufacturing and nonmanufacturing, fitted the Japanese ‘model’ of the ‘company man’. Their findings were that management development in Slough had actually moved *away* from the Japanese model, towards more “footloose”, instrumental career paths (p.61). Emphasising that ‘Japanese’ practices are only associated with large industrial companies, they point out that since employment in Slough is concentrated in small entrepreneurial firms, it is hardly surprising that these companies have not adopted the work practices of large-scale Japanese enterprise. They also note the ongoing process in the UK of internal labour markets being progressively replacing by those external to the firm, a process going against the Japanisation of UK companies.

This study and its findings have obvious relevance to any assessment of Japanese FDI upon Milton Keynes. Milton Keynes is a similar ‘boom’ town to Slough, being the fastest growing town in the UK in the 1980s. It also has a large ‘service class’ of professionals, with the dominant form of employment being in small, tertiary sector companies. Thus, though the town possesses one of the most numerically significant clusters of Japanese affiliates in the country, these broadly confirm to the composition of the UK as a whole (see Chapter 5 for a detailed statistical breakdown), and it is not clear how debates concentrating upon large manufacturers, such as that of Japanisation, apply to the Milton Keynes economy. Therefore, an investigation of the town would appear to be a good first step in researching the impact of smaller-scale and/or nonmanufacturing Japanese MNCs. Hence the next chapter outlines the primary research work undertaken into Japanese affiliates in Milton Keynes.

CHAPTER 4
The research project and methodology

… the presence or absence of a particular practice (as indicated, perhaps, by a 'tick' in a postal questionnaire) is of less significance than the way in which the practice is applied in the establishment concerned, particularly in combination with other practices. This is an important point, given that information concerning 'Japanisation' is frequently derived from postal surveys
Peck & Stone, Japanese inward investment in the northeast of England[*]

Having used the preceding chapters to review the current theoretical debate and extant research regarding inward investment into the UK, the rest of the dissertation will concentrate on the primary research undertaken by the author. Having identified the primary shortcoming of the existing empirical literature as a disproportionate concentration upon, usually large, Japanese manufacturing companies, with a concomitant neglect of the more representative small, nonmanufacturing affiliates, this chapter outlines the research programme followed in order to redress this imbalance. The next section briefly justifies the methodology used, in terms of its appropriateness to the research aims. However, the final section also discusses the problems encountered and the weaknesses inherent to the approach, highlighting areas where further research is needed.

The research approach

The approach adopted for the research was a multimethod strategy. However, the primary research method was an 'extensive' postal questionnaire of the entire population of Japanese companies in Milton Keynes, as listed by the Commission for New Towns (CNT 1996; see Table 5.1).[10] This census type approach was possible because although

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[*] 1993:60

[10] This approach proved itself not to be unproblematic however, as the definition of what constitutes a 'Japanese' company is open to interpretation (see Appendix 1 for the UK's official definition). For example, Sansetsu (UK) Ltd considered itself to be completely independent as it is in fact *personally* owned by managers from its Japanese 'parent' (author's research, 1996; Dunning 1986); ditto the Gyosei Japanese school; whilst three other companies are all UK branches of the *European* subsidiaries of Japanese parents (one of who admitted that this arrangement existed for tax reasons; author's research, 1996; CNT 1996). Thus whether or not these companies are considered to be 'Japanese' is a matter for debate. Further, research found the CNT's list not to be exhaustive, especially concerning subsidiary branches within Milton Keynes of the listed companies. Similarly, despite the proactive approach of the

the cluster of Japanese companies in Milton Keynes is significant in comparison to other clusters, the absolute number is still manageable at only 50.[11] This approach was chosen because it had the obvious strength of potentially being able to achieve complete population validity regarding Japanese firms in Milton Keynes.

The survey approach adopted was primarily a 'descriptive' one: attempting to ascertain the particular characteristics of the population of Japanese companies, in order to inductively generate grounded theory about these investors and their impact upon the local economy. The alternative approach of 'analytic' surveying, which deductively tests extant theories in a quasi-experimental manner, was considered to be inappropriate due to the currently underdeveloped state of the existing theory regarding nonmanufacturing Japanese investment (see Gill & Johnson 1991). The questionnaire was designed for self-completion and was mailed to all Japanese companies in Milton Keynes at the beginning of July. In the case of large companies an initial telephone call was made to determine the most functionally appropriate senior manager within the company to whom it could be addressed. For smaller companies the questionnaire was sent to the contact name listed by the CNT (1996), usually the 'Managing Director' or 'General Manager'.[12]

The questionnaire (see Appendix 2) was deliberately kept short (four sides of A4 in a booklet form) and relatively simple to answer in an attempt to secure a valid response rate (see Sudman & Bradburn 1982). To avoid researcher bias, the questions were left 'open-ended' where appropriate, by including an <other> category, with a space for the respondent to explain their answer more fully. This allowed the respondents to give unanticipated answers or more qualitatively rich responses, whilst avoiding the lack of comparability, and thus analytical difficulty, of completely 'open-ended' questions (Gill & Johnson 1991). Because the data was being providing only by management who, as Peck and Stone (1993) note, are not disinterested parties in the portrayal of Japanese work organisation, the questions were limited to data that was as quantitative as possible. Nevertheless, Peck and Stone found from their own research that even the 'objective' features of companies are subject to very significant variations in meaning and practice amongst different firms (see Chapter 3). For this reason, all the companies that returned a

MKDC/CNT, it may well be the case that other Japanese companies have established themselves in Milton Keynes without coming to the CNT's attention. This, together with certain errors found in the information the list did contain, mean that the analyses drawn from it must be treated with some caution.

[11] The CNT (1996:13) also includes the Nissan European Technology Centre in Cranfield, Bedfordshire in their list, as being located in the "Milton Keynes environs". Although this company was surveyed because of its status as one of the most important 'independent' Japanese R & D centres in the UK (see Cairncross 1994), they declined completing the questionnaire and, being outside Milton Keynes itself, the company was not included in subsequent analysis.

[12] Returning to the issues raised in Footnote 2: this may have also encountered problems in that personnel may have changed since the publication of the list in January (CNT 1996). Nonetheless, the approach proved to be successful, with 50% of the returned questionnaires having being completed by the most senior manager of the subsidiary, whilst other questionnaires were passed on to another manager for completion.

completed questionnaire were sent a thank you letter that included a request to conduct a short interview at their premises.

By the end of the project, 18 of the 50 companies had returned completed questionnaires, all of them usable, a response rate of 36%.[13] Although subject to some disagreement, such a response rate, in conjunction with further qualitative research, can reasonably be considered to be valid for the purpose of analysis, especially since much relevant information could also be supplemented by secondary sources (e.g. CNT 1996; Dunn and Bradstreet International 1995; 1996; ICC 1995).[14] The analysis and presentation of the results from the questionnaires was primarily statistical, using the Excel computer software package (see Toh & Hu 1991), but also involved some qualitative analysis (see Chapter 5).

However, adopting the methodological approach used by Peck and Stone (1993), this quantitative analysis was supplemented by more in-depth qualitative interviews. In all, interviews were undertaken with the most senior managers of two Japanese subsidiaries at the beginning of September. The interviews, lasting approximately an hour, were 'structured', in the sense that they went into more depth in the areas covered by the questionnaire, and thus utilised the external frame of reference deemed important by the author from an analysis of the extant theory and research. However, the 'traditional' rules of good practice for fully structured interviews were not slavishly followed, with some topics being pursued further whilst others were disregarded as not being relevant to the company. Thus the 'replicability' of the interviews, in positivist terms, was not regarded to be an issue. In other words, the interviews were left as open-ended as possible to achieve qualitative depth, without letting the respondent stray too far from the areas of interest to this particular topic (see Fontana & Frey 1994). Such interviews required qualitative rather than computer-based statistical analysis, and this is presented in the form of two 'Case Studies' in Chapter 5.

However, in order to assess the findings for the Japanese subsidiaries in context, it was also necessary to analyse relevant data regarding companies, employment, training, etc. for the Milton Keynes economy as a whole. This was undertaken by the secondary analysis, primarily quantitative, of the available data sources (CNT 1995a; 1995b; 1996; Dunn and Bradstreet International 1995; 1996; ICC 1995; Milton Keynes & North Bucks Chamber of Commerce Training & Enterprise 1995a; 1995b; MK World Development Education Centre 1994; Prism Research Ltd 1995). Useful background information regarding the

[13] Although a reminder letter was sent out to all the companies that still had not replied by mid-August, this failed to secure any further responses. Also, two companies replied that as a matter of policy they did not complete such questionnaires.

[14] Thus, though Sara Arber (1993:71) argues that a 60% response rate for self-completion questionnaires is necessary to minimise 'non-response' bias, Oliver and Wilkinson (1992), in their two postal surveys (in 1987 and 1991) of Japanese manufacturers, only secured response rates of 29% (14 from 49) and 34% (52 from 155) respectively.