INBOUND FOREIGN DIRECT INVESTMENT IN JAPAN: A TYPOLOGY

ABSTRACT

While Japan has been attracting far less foreign investment than other mature economies, it could offer insights into FDI decision-making for international firms entering countries with a shrinking domestic market and increased international competition. Using a Delphi methodology with contributions from foreign direct investors and experts, we propose a model of inbound FDI in Japan and identify four types of investors based on the nature of investments and market maturity, namely empire builders, rescuers, niche players, and cherry-pickers. This framework, offering both descriptive and prescriptive components, highlights the importance of the predisposition and motives of local takeover targets and business partners in foreign market entry decisions. This model can help foreign firms take advantage of investment opportunities in Japan, and provide lessons for market entry in other mature economies facing similar conditions.

INTRODUCTION

The Tohoku crisis, destroying large areas and damaging billions of dollars in infrastructure in Northeast Japan, has disrupted and cast doubts on the country's energy policy and its reliance, albeit very limited, on nuclear power. It has led foreign investors to further question the country's attractiveness after a long period of economic slowdown resulting from the bursting of the speculative bubble in the early 1990s and the global recession triggered by the Lehman shock (Siddiqui, 2009). This succession of crises also affects the economic and social environment confronted to a series of challenges including the largest public debt as a ratio of Gross Domestic Product (GDP) and a demographic problem (Meyer, 2011). Furthermore, Japan must cope with the increasing competition of fast growing economies, especially China, whose GDP growth makes it the de facto regional leader.

While Japan has long been an investment powerhouse abroad, there has been a recent resurgence of inward foreign direct investment. In 2015 alone, there were 162 inbound Japanese deals worth USD 25.4 billion, which is the highest amount in a decade and represents more than 20% of all inbound deals over the same period (JETRO, 2016). Inward foreign investment has been fueled in part by large and high-profile foreign takeovers such as that of electronics group Sharp by Taiwanese technology conglomerate Hong Hai (better known as Foxconn) for USD 3.5 billion in 2015, Toshiba's white goods unit to China's Midea for USD 500 million in 2016, and Hitachi's power tools unit Hitachi Koki to US private equity firm KKR for USD 1.3 billion in 2017. However, when looking at recent cases of inbound M&A, many seem to be driven by financial buyers or by Japanese subsidiaries of multinational companies, with targeted companies often in financial trouble or hit by corporate governance scandals (Bebenroth, 2015).

At the same time, the Japanese government has been trying to make Japanese companies more attractive to foreign investors. A new corporate governance code championed by Prime Minister Shinzo Abe – aiming to address issues related to low profitability and sometimes questionable management decisions with negative effects on financial performance, thus discouraging foreign investors – will now require companies with no outside directors to explain why to shareholders (Wall Street Journal, 2014; The Economist, 2014; Bloomberg, 2014). Japan still remains the third most important world economy and continues to be a reference for innovation – in products and above all, in process – and for quality.

Recent Trends in Foreign Direct Investment

Although historically, developed countries have been both the source and the host of most foreign direct investment (FDI) (Glass, 2008), their share is on the decline. Developed nations attracted 55% of global FDI inflows in 2015 (USD 962 billion) versus 41% in 2014, 60% in 2008 and 87% in 2000 (OECD, 2011, 2013; UNCTAD, 2016). Among countries from the Organization for Economic Co-operation and Development (OECD), most inflows of FDI are horizontal and located in America and in Europe, suggesting that the motive for FDI is more about market access rather than reducing production costs

(Glass, 2008). Inflows to developing and transition economies represent a high of USD 800 billion or 45% of the total (UNCTAD, 2016). Per UNCTAD's latest report (2016), the increase in FDI flows to developed economies was driven by a surge in cross-border M&As during the year, with the value of deals rising by 109% to USD 631 billion. In 2015, the value of cross-border M&As (USD 721 billion) is roughly equivalent to the one of announced greenfield investments (USD 766 billion), which historically have always been higher (UNCTAD, 2016).

While Japan ranks second of the top 20 home economies for FDI outflows in 2014 and 2015 with USD 114 billion and USD 129 billion, it does not even make the top 20 host economies for FDI inflows (UNCTAD, 2016). Compared to other advanced nations and China, foreign investment flows and positions in Japan remain relatively small (World Bank, 2017). Over the period 1990-2015, FDI inflows as a percentage of GDP stood at 0.14% for Japan, compared to 2.13% for OECD countries, 3.46% for the European Union, 1.47% for the United States, and 3.65% for China (World Bank, 2017). As for FDI stocks over the period 2009-2013, they accounted for 3.7% of GDP in Japan, compared to 30.5% in OECD countries, 40.8% in the European Union, 23.7% in G20 countries, 18.1% in the United States, and 26.3% in China (OECD, 2014).

Successful inbound investment into Japan by way of acquisitions has been found to hinge on a few key principles including selecting acquisition targets that will not elicit resistance, show sensitivity to the local culture (avoiding confrontations), negotiating as equals, avoiding headcount reductions as much as possible, keeping out of the public eye, and making a commitment to this specific geography (Hibbard, Shultz, Wouters, & Zelezny, 2009). Furthermore, the simultaneous expansion of fast growing economies in Asia has redirected FDI away from Tokyo towards other destinations (Figure 1).

Insert Figure 1 about here

In such context, the idiosyncrasies of this original nation must not only be considered in analyzing FDI, but could also foretell the future of other mature economies. The case of Japan is rather significant, since the country has been attracting far less foreign investment than other mature economies, as reflected by dismal inbound FDI stock and flows respectively. The analysis of its particular domestic business context can offer insights into FDI decision-making in mature economies. Inbound FDI could still offer higher returns in Japan, provided that investors can rely on a robust rationale to identify latent FDI opportunities. This study fits with Hennart & Slangen's (2015) recommendation of further research into entry decision processes, and with Peng's (2004) argument that the determination of international success and failure of firms is a fundamental research question for international business (IB). It helps clarify incentives and deterrents for inbound FDI in Japan, map out investment options based on entry strategies and market maturity.

LITERATURE REVIEW

Foreign Direct Investment

The OECD defines FDI as a "category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor" (OECD, 2008: 234). Unlike portfolio investment, FDI implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence - although not necessarily control - on the management of the enterprise. The OECD sets the ownership threshold of direct or indirect ownership at 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy as evidence of FDI (OECD, 2008). This paper focuses on inbound FDI flows - investments by non-resident investors in the reporting country - and on FDI positions (stocks) in Japan. According to the OECD (2008, p. 234), "FDI flows and positions include

equity (10% or more voting shares), reinvestment of earnings and inter-company debt". FDI is generally expressed as a share of GDP to make comparisons among countries meaningful.

FDI can be broadly segmented into vertical (Helpman, 1984) and horizontal (Markusen, 1984) investments. The former are investments where "firms locate different stages of production in different countries", and the latter where "multi-plant firms duplicate roughly the same activities in multiple countries" (Glass, 2008: 1163). There are fundamentally three arguments whereby FDI is considered to be a source of great benefits to those countries that can attract it. First, unlike international portfolio investment, FDI can bring in much needed resources and methods in the form of know-how, technology, and products, into the recipient country, and these investments are committed for the long term (Fukao & Amano, 2003). Second, inbound FDI has been found to increase employment, output and productivity (Kimino, Saal, & Driffield, 2007). And third, inbound investment provides a measure of openness which itself is an engine for growth (Bailey, 2003; Kimino et al., 2007). In addition, because inbound FDI means production at home, it can decrease imports, boost exports, and eventually shape up the recipient country's balance of payments.

Dunning (1993) has put forth four types of FDI, natural resource seeking, market seeking, efficiency seeking, and strategic asset or capability seeking (Dunning & Lundan, 2008). These types of FDI are determined by the host country's factors that drive FDI inflows. Resource seeking FDI is motivated by available abundant natural resources, market seeking FDI by host country market size, efficiency seeking FDI by attractive production costs, and strategic asset seeking FDI by distinctive technology, knowledge, or know-how there (Makino, Lau, & Yeh, 2002). Dunning & Lundan (2008) note that many larger international firms use several of the types of FDI stated above and that the investments they are making can be aggressive or defensive, depending on the actions, taken or likely to be taken, by their competitors.

Dunning (2000:173) asserts that "rationalized or efficiency seeking FDI is only viable if the investing firm is already producing in at least one foreign country, and both intermediate and final product trade is relatively unimpeded by natural or artificial cross-border barriers" and that "strategic asset seeking FDI is dependent on intellectual capital being located in more than one country, and that it is economically preferable for firms to acquire or create these assets outside, rather than within, their home countries".

Determinants of Inbound FDI

Past research has established that the modes of foreign market entry depend on internal and external determinants at the parent, subsidiary, industry, and country level (Slangen & Hennart, 2007). The most common perspectives used to examine entry modes are transaction costs/internalization theory (Forsgren, 1989), the organization-learning perspective (Padmanabhan & Cho, 1999), information economics (Hennart & Park, 1993), the theory of the growth of the firm (Caves & Mehra, 1986), the industrial organization perspective (Meyer & Estrin, 1997), and institutional theory (Harzing, 2002). These frameworks use for instance the following constructs to predict entry mode: parent's technological knowledge, parent's international experience, parent's host-country experience, relatedness of subsidiary's products to those of parent, parent's degree of product diversity, cultural distance between home and host country, parent's experience with greenfield entry, parent's experience with acquisitions, relative subsidiary size, concentration level of industry entered, growth rate of industry entered, availability of takeover targets, parent follows multi-domestic rather than global strategy (Slangen & Hennart, 2007).

Of these many constructs, we examine here market maturity, which is a condition independent of the firm itself. Slangen & Hennart (2007) noted that market maturity and the industrial organization perspective "constitute an excellent complement to the other five perspectives predominantly or exclusively focusing on the firm level" (p. 411). Research on the industrial organization perspective has shown that market entry mode – M&A vs. greenfield – is affected by industry concentration and growth, as well as host government policy. In a very comprehensive review, Slangen & Hennart (2007) conclude that "MNEs will opt for acquisitions rather than greenfields if an industry is either growing very slowly (so as to avoid retaliation by incumbents) or very rapidly (so as to avoid foregone profits) (Caves &

Mehra, 1986; Hennart & Park, 1993)" (p. 411). They also note that at the industry level, the availability of suitable local takeover candidate firms can force MNEs to enter through greenfield investments instead (Caves & Mehra, 1986).

Inbound FDI in Japan

While Japan's outward FDI has been studied at length, especially during its growth period until the burst of the speculative bubble at the beginning of the 1990s (Dunning, 1988), its comparatively lower inbound FDI among developed countries has been highlighted in numerous studies (Fukao & Amano, 2003). For instance, Eaton & Tamura (1994, 1996) contend that instead of FDI, Japan is more open to exports. Head & Ries (2005: 225), besides pointing out that "Japan has been viewed as a country being hostile to corporate takeovers", advance a 'dartboard' model of FDI which confirms Japan's low attraction for foreign investments. Even in 1988 before the speculative bubble burst, Dunning proposed that the only reason for Japan to accept foreign companies' investments was for its own firms to be allowed to invest abroad.

EU companies expressed concerns about the difficulties of investing in Japan in a public consultation conducted by the European Commission in 2011 (Japan Economic Foundation, 2011a). Indeed, investors and institutions from the European Union consider Japan to be a "fortress" where several barriers to trade and investments remain. Recently, the head of the European Union Delegation to Japan, Ambassador Hans Dietmar Schweisgut, conveyed the wish of the European Union for further investment in Japan, provided that Tokyo eases non-tariff barriers in several sectors (Japan Economic Foundation, 2011b). Schweisgut stressed the fact that easing foreign investment in Japan goes beyond the Japan-EU free-trade agreement currently being discussed, since "the main hurdle faced by European companies in Japan is the complexity of non-tariff barriers [NTBs] in agriculture and a few sectors of industry - the issues of access to government, procurement and the harmonizing of regulatory standards" (Japan Economic Foundation, 2011b). Prime Minister Shinzo Abe's 'third arrow' of its 'abenomics' economic policy counts on increased outbound trade and inward FDI as part of its long-term growth strategy (Lambrecht & Pohl, 2013).

Roots of FDI in Japan. After World War II, although inbound investment was relatively free, Japan adopted an export-led growth model, "relying on export proceeds and domestic savings rather than foreign direct investment to finance development" (Murphy, 2010). That strategy demanded that exports be of higher quality than those from competitors, and led to the creation of domestic champions in protected home bases. Furthermore, Japanese companies valued "technological progress, gross revenues, cost-reductions on the assembly line, and market share" over profits (Murphy, 2010). This led them to indulge in excessive capital investment, dilute shareholder equity because of new issues of equity, and eventually overlook returns on capital (Financial Times, 2011). More recently, shareholder returns are receiving more attention, reflecting improvements in governance (Financial Times, 2011).

The last two decades of stagnation in Japan have contributed to an inbound investment expansion thanks to deregulation, declining stock and land prices, and a global boom in mergers and acquisitions (M&A). However, barriers to inbound investment remain today, mostly in the form of cross-shareholding, and market entry restrictions, at least until the implementation of Shinzo Abe's new policy (Fukao & Amano, 2003; Head & Ries, 2005).

Barriers to FDI in Japan. While trade and investment are usually treated separately, they share common characteristics in developed countries. As previously mentioned, most inflows of FDI among OECD countries are horizontal, seeking market share (Glass, 2008), and thus rely on the export of standardized products manufactured in a country different from that of the recipient country. Export-led inbound investment is therefore subject to the same barriers as international trade and this research consequently examines both trade and investment barriers.

A landmark report published at the end of 2009 by Copenhagen Economics and commissioned by the European Commission's Directorate General for Trade, examines in detail the range of trade and investment barriers between the EU and Japan (Copenhagen Economics, 2009). The report concludes in the section dealing with current EU-Japan trade that "there is a Japanese conundrum: there is little trade, but few barriers" (Copenhagen Economics, 2009: 35). However, although there are few formal

trade barriers on the surface, “non-tariff barriers might add substantially more to the cost of trade than tariffs” (Copenhagen Economics, 2009: 35). Indeed, as of 2014, Japan ranks below other OECD countries on the OECD’s FDI Regulatory Restrictiveness Index, which measures statutory restrictions (including foreign equity limitations, screening or approval mechanisms, restrictions on the employment of foreigners as key personnel, and operational restrictions) on foreign direct investment in 58 countries in 22 sectors (OECD, 2015). However, in practice, foreign managers describe a different reality with marked differences by industry.

As argued earlier, these non-tariff barriers (NTBs) have similar effect on export-led inbound investment. The prevailing type of NTBs in Japan is non-discriminatory, applying equally to foreign and domestic firms. In a survey of 128 EU firms in six sectors covering the majority of European exporters with operations in Japan, Copenhagen Economics (2009) found that 75% of managers felt Japan to be more or much more difficult to access than other markets, citing customer requirements, NTBs, and language differences as factors restricting trade the most. And among NTBs, these same managers rated the regulatory environment – or the costs and complexity of doing business – as the biggest obstacle to trade, especially for pharmaceutical and medical device companies for which standards and conformity assessment requirements – or technical regulations and certifications – represented additional barriers (Copenhagen Economics, 2009).

In addition to these NTBs, structural barriers related to company law and M&A rules discourage potential investors due to the cost and complexity of completing transactions, and public procurement in Japan also appears to be relatively closed to external competitors, particularly in the transportation industry (Japan Economic Foundation, 2010). Furthermore, cross-shareholding characteristic of keiretsu-affiliated companies and integrated buyer-supplier relations hamper FDI (Fukao & Amano, 2003; Head & Ries, 2005) and in effect shut foreign companies out of certain segments of the Japanese market (Lasserre, 1995). Overall, a recent 2017 OECD report concurs and states that while “Japan’s explicit barriers to trade and investment are below the OECD average, other [less explicit] barriers are well above (OECD, 2017: 102).

Measures to Attract Inbound FDI. Japan’s FDI deficiency has long been known and documented (Yoshitomi and Graham, 1996; Bailey, 2003) and the need to increase the country’s stock of FDI has now been recognized by the Japanese government as one of its priorities (Datamonitor, 2010). Several measures have been taken by the Ministry of Economy, Trade and Industry in order to remove trade barriers, and eventually, Datamonitor (2010: 57-58) states that “Japan’s FDI stock has grown from less than 1% of GDP in 2001 to around 3% at the end of 2008”. For instance, new legislation facilitating the acquisition of Japanese firms has been passed (Head & Ries, 2005; Hibbard et al., 2009) and the Japanese External Trade Organization (JETRO) now provides specific information on opportunities to potential investors (http://www.investjapan.org). Recently, Japan’s new corporate-governance “comply or explain” code on the appointment of outside directors is squarely aimed at making Japanese firms more attractive to foreign institutional investors who may actively engage in FDI. Last year, the government started the “Policy Package for Promoting FDI into Japan to Make Japan a Global Hub”; it includes fast-track permanent residence for highly skilled foreign professionals and the improvement of the living environment for foreign nationals in areas such as health and education (OECD, 2017). However, a 2017 OECD report cited earlier contends that Japan is not doing enough and recommends to address problems in the M&A market, corporate governance, regulation and employment flexibility (OECD, 2017).

RESEARCH METHODOLOGY

This project uses a qualitative Delphi methodological approach relying on a panel of FDI experts mostly composed of foreign direct investors. Once the framework has received preliminary feedback, two consecutive rounds of comments and responses from the same panel of experts are used to modify and finalize the framework (Dalkey & Helmer, 1963; Okoli & Pawlowski, 2004; Loo, 2002).

Such methodology has been successfully used to consider complex phenomena characterized by a variety of criteria, to identify and to elaborate concepts, and to establish taxonomies. It can also be useful to examine the significance of historical events and to delineate the pros and cons associated with

potential policy options (Linstone & Turoff, 1975). Even though the Delphi technique has been criticized and often compared to statistical methods (Rowe, Wright & Bolger, 1991; Rowe & Wright, 1999), dealing with complex issues such as those addressed in this research makes it difficult to rely on such quantitative approaches. Flostrand (2017: 229) argues that the Delphi technique is appropriate "when managers are unable to use quantifiable time series data to make forecasts or decide on uncertainties, [and] they can either rely on their own intuition and judgment or resort to the insights of others". Delphi applications in IB research are frequent and diverse (Czinkota & Ronkainen, 1997; Griffith, Tamer Cavusgil & Xu, 2008; Zettinig & Vincze, 2011), and have been found to be especially suited to "emerging research themes that call on IB researchers to interpret intricate sets of entities, activities, and relationships" (Nielsen & Thangadurai, 2007: 147) and important for building consensus among dispersed experts (Paré, Cameron, Poba-Nzaou & Templier, 2013). Beyond the recommendations of Dalkey & Helmer (1963) and of Okoli & Pawlovski (2004), a recent review of the application of the Delphi technique found that most studies using it were rigorously ensuring the anonymity of experts and providing clear and precise instructions to participants, but that there were improvements to be made concerning retention rates and instrument pretesting (Paré, Cameron, Poba-Nzaou & Templier, 2013).

In this research, an alternative approach to the Delphi method could have been the use of case-based analysis with a longitudinal approach of the path French investing companies have followed in Japan. In fact, this paper includes the study of such paths since the questionnaire includes items about investors' step-by-step historical entry into the Japanese market, allowing the identification of incentives and deterrents, of both internal and external critical incidents, and of corporate perspectives for future expansion.

Following the Delphi methodology, a monitor team designs a questionnaire or interview guide that is used with a panel of experts. The results of the questionnaire or interviews are then summarized and a new questionnaire or interview summary is drawn up and sent to the same panel, offering the experts to reevaluate their original answer in light of the group's response (Linstone & Turoff, 1975). In this research, the monitor team is represented by the two co-authors who conducted individual semi-structured interviews between June 2011 and July 2012 with a panel of nine FDI experts based in Tokyo from a diverse range of French companies and institutions established in Japan. The group of experts consisted of seven practitioners: the president of a French luxury group, the president of a French pharmaceutical company, the president of a large French electronics and systems group, the representative director and the general manager of a large French multinational company producing construction and high-performance materials, the general manager of a large French financial institution, the founder of a Japan-based imported furniture company, and a former retail specialist of a French luxury brand in Tokyo. In addition to this carefully selected group of corporate executives, two institutional experts of FDI challenges in Japan were also included to the panel: the director of a French government-funded research institute and a high executive of the French chamber of commerce and industry in Japan.

These experts were selected on the basis of their knowledge of FDI, especially the motives, entry mode(s), and general conditions of their business, market and industry (such as growth rate). Therefore, all experts here are in managing and/or executive positions and have a deep understanding of the Japanese market (and sometimes of other markets besides the home market). It is important to note that all nine experts are expatriates from the home market country (France) having held similar positions in other countries and with a solid knowledge of their business and industry; most have spent their entire career with the same company or institution and industry. As for the size of the panel, we opted for a rather small group of seasoned practitioners with in depth knowledge rather than a larger group of newcomers to Japan with little experience of the local market. Therefore, we contend that the panel was developed correctly and is appropriate for the purpose of this research.

The application of the Delphi method respected the anonymity principle whereby each expert was solicited separately by the monitor team. The synthesis stemming from the first round was submitted back to each expert individually who was then asked to provide feedback by answering additional questions. After the initial round of interviews, short in-depth company cases and a synthesis of all the respondents' contributions were drawn up, highlighting the drivers and orientations *a priori* identified. Such cases have been used in management studies, for instance by Johanson & Wiedersheim-Paul

(1975) in their study of the internationalization of four Swedish firms. The results were then used to draw a decision model of inbound FDI in Japan based on market maturity and the nature of investment (Greenfield vs. M&A), producing a diagnosis matrix to map current FDI in Japan, and a prescriptive matrix to support decision-making for further FDI evolution into Japan.

The second step of the Delphi process called for the submission of the interview synthesis and the proposed two matrices to the same panel of experts in order to raise complementary contributions and feedback and to refine and validate the proposed FDI framework in Japan. It is important to note that only half of the originally interviewed experts were available and provided meaningful feedback in the second round of interviews, while the other half either agreed with the proposed framework or did not provide any response (some had been replaced by other expatriates new to Japan). Each iterative expert input was integrated into the proposed taxonomy and either offered support for other experts' opinions or provided the basis for another quadrant in the matrix. It is to be noted that only two rounds of questions were used in this research, rather than three rounds as sometimes recommended (Czinkota & Ronkainen, 1997; Lee & King, 2008). Indeed, the method must be adapted to the issue being examined, and to the availability of the experts solicited. The data collected from the experts in the two successive rounds of interviews provided a satisfactory level of saturation and therefore sufficient validation. The inclusion of the two institutional experts in the panel provided a complementary cross-sectoral and historical perspective of FDI issues in Japan. Their contribution further validated the assessments of corporate experts. Additional qualitative secondary data collected three years after the initial interview rounds provided sufficient validation to the proposed framework.

PROPOSED FRAMEWORK

Underpinnings of the Proposed Model

To study FDI, the OLI approach, standing for ownership, location, and internalization, posits that these three sources of advantage drive any given firm's decision to go abroad (Dunning, 1977). According to this 'eclectic' theory, ownership advantages imply that some companies are better equipped internally than others to go abroad, location advantages indicate the destination of a firm's foreign investments, and internalization advantages specify the entry mode of a firm in the foreign market. A large proportion of academic research has focused on the Greenfield investments, whereby the parent firm builds up an operation from scratch in the host country, which represent the majority of FDI globally (UNCTAD, 2013). However in Japan, the majority of FDI is recently the result of M&A investment whereby the parent company invests in an existing local business or operation.

According to JETRO (2014), the value of M&A deals in Japan in 2013 fell 35.7% to USD 8.9 billion, the first decline in four years. By industry, real estate and electronic and electrical equipment were the highest contributors. Over the first half of 2014, there were 57 M&A deals in Japan valued at US$4.6 billion (a 29.1% increase compared to 2013). By originating country, the United States ranked first in both value (USD 6.1 billion) and number of deals (41 deals) in Japan. In July 2013, Elpida Memory, Inc. in the electronic and electrical equipment sector became a wholly-owned subsidiary of Micron Technology, Inc. of the United States in a deal valued at USD 2.6 billion. Out of the ten largest M&A deals to Japan from January 2013 to July 2014, eight resulted in a foreign company owning more than 90% of the capital of a Japanese firm, while only two in a foreign company owning less than 66% of the capital of a Japanese firm (JETRO, 2014). Few Greenfield investments have been recorded by JETRO in recent years. Therefore, the first dimension of our proposed model on the vertical axis addresses the nature of the investment, whether it is Greenfield versus M&A.

Japan is admittedly a highly developed country, with decidedly competitive industries. However, globalization has brought several new products and services therefore creating new markets for a demand that did not previously exist. In highly-mature industries, markets are saturated with large established players which serve a sophisticated demand. These mature markets are characterized by intense competition, high barriers to entry, few substitutes (Porter, 1980), and lower growth rates. In less mature industries (i.e. innovative through new products or technologies/processes), local gaps can be filled by a differentiated offering and competing firms may be smaller because of the limited size of

those markets. These less mature markets are characterized by less intense competition, lower barriers to entry, possible substitutes in nascent markets (Porter, 1980), and higher growth rates. Therefore, the second dimension of our proposed model on the horizontal axis evaluates the maturity of the market for a targeted investment, based on its growth rate (Figure 2).

Insert Figure 2 about here

In Japan's highly mature markets, foreign firms entering with an established brand name through Greenfield investments are labeled "empire builders", while those taking over ailing local companies thus entering through M&A investments are called "rescuers". In Japan's growing markets, foreign firms entering by filling a local gap with differentiation through Greenfield investments are categorized as "niche players", while those acquiring promising local Small and Medium Enterprises (SME) thus entering through M&A investments are regarded as "cherry-pickers". A niche-player strategy, an initial entry into the Japanese market with a Greenfield investment, does not preclude later acquisitions – M&A investments – once they have developed relationships with domestic partners and embedded themselves into a network of local stakeholders. Likewise, cherry-pickers, who entered through the acquisition of a promising Japanese firm, can use their new domestic foothold as a springboard for organic growth. Table 1 presents the entry strategies and profiles of some of the companies surveyed in this research and others.

Insert Table 1 about here

Diagnosis Matrix

The proposed model includes three of the four activities that firms seek in engaging in FDI (Dunning, 1993) in Japan, leaving aside natural resource seeking given the scarcity of raw materials and low-cost labor in the country. Empire builders and niche players both seek to expand their market beyond exports, albeit for differentiated reasons. Market seekers typically undertake FDI to follow their customers or suppliers, to localize their products to the specific needs of that market, to reduce the distance between production and sale thus cutting transaction costs, and to follow competitors. Efficiency seekers pursue economies of scale and scope by rationalizing their existing investments and leveraging proven organizational capabilities. Besides taking advantage of relatively lower labor costs, efficiency-driven FDI in developed countries aims at exploiting local supply capabilities. Strategic asset seekers often engage in M&A to increase their physical and human assets and widen their portfolio. Primary purposes consist of "opening up new markets, creating R&D synergies or production economies, buying market power, lowering transaction costs, accessing new organizational skills, spreading administrative overheads, advancing strategic flexibility and enabling risks to be better spread" (Dunning and Lundan, 2008: 73).

Empire Builders. In this quadrant, competition is intense and the market is highly mature or even declining (in a later stage of the product or sector lifecycle). Some empire builders provide goods and services that Japanese companies have been unable to supply at the quality and price expected by local demand. Some of them are producing locally, while some others import part or all of their end products distributed in Japan. Empire builders, which have honed their core capabilities at home and in other countries before, are looking to grow their market share by going hand to hand with established Japanese players and challenging their positions.

Examples of empire builders include Carrefour, which entered Japan on its own in 2000 and withdrew in 2005, Amazon which has decided to challenge Rakuten's position, and Ikea which has been going up against established players like Nitori. Another instance of empire builder, Thales Japan (Thales K.K.), is a 100% subsidiary of Thales, a leading international electronics and systems group serving the

aerospace and space, defense, security and transportation markets throughout the world, with 66,000 employees in 50 countries and an order intake in 2013 of EUR 14 billion (Thales, 2015a). Thales has been in Japan since 1971, counts about 49 employees and had a Japan-based order intake in 2013 of EUR 100 million. Thales Japan is present mainly in defense and security, laser products, space activities, civil aviation, ground transportation, electronic security, components and subsystem and trading activities (Thales, 2015b). Thales Japan's President and CEO, Jean-Louis Moraud, explained that the company's growth over the years has been organic, starting from scratch and mainly selling to Japanese industrial companies and receiving large government orders. However, for the past 15 years, sales have largely remained flat, relying on repeat customers and on related service and maintenance of past contracts. Moraud asserts that despite their best efforts, Japan remains a closed market implicitly favoring Japanese suppliers, even when foreign competitors offer better technology at a lower cost, by having NTBs effectively shutting out foreign bids. For instance, while Thales is the world-leading provider of onboard and ground systems for the civil aerospace market, it has failed to even qualify once in public bidding in the Japanese market, always losing out to Japanese competitors. This situation has led Thales Japan to consider becoming more local in the eyes of its Japanese clients by evaluating the acquisition of one or several Japanese companies and the creation of joint-ventures (JVs) with local players. However, such shift to a rescuer or cherry-picker strategy does not guarantee that Japanese clients won't perceive the locally-acquired company as foreign-owned, thus making this localization effort both expensive and futile.

Rescuers. In this quadrant, which mostly refers also to mature activities (such as automotive, insurance, retail), competition among local (and foreign) players is intense, leading some of the weakest companies in Japan on the verge of bankruptcy, often unexpectedly. Without any local solution – either from the government or from private domestic actors – ailing Japanese companies reluctantly offer themselves for sale to foreign companies. Hence a foreign direct investor can play the role of the "white knight", through M&A investment, taking over (not necessarily with a controlling stake) the ailing local company.

Examples of such companies include Nissan (automobile), Seiyu (retail supermarket), and Nippon Dentai (insurance). In March 1999, when Renault took a controlling stake in Nissan, the Japanese carmaker had dismal sales of JPY 6 trillion and incurred a loss of almost JPY 600 billion, was drowning in debt and had been losing market share, dropping from 18% in 1989 to barely 13% ten years later (Kase, Riquelme, and Saez, 2005). In 2013, Nissan had sales of JPY 10.5 trillion and recorded a net income of JPY 389 billion (Nissan, 2015). In 2002, Walmart took a 6% stake in Seiyu to enter the Japanese market, and eventually purchased 100% of the Japanese supermarket chain in 2008, with close to 400 stores. In contrast, Walmart's main competitor, Carrefour, entered Japan in 2000 through a Greenfield investment using its own brand name, and after failing to gain a local foothold in the market, exited the country in 2005 by selling its assets to one of the largest Japanese supermarket chains, Aeon. In 1999, the French insurance company AXA acquired Nippon Dantai, Japan's thirteenth largest domestic life insurer, which has now become part of AXA Life. At the time, Nippon Dantai had falling revenues which had declined 3.4% compared to the previous year, and new contracts, valued by coverage, had dropped by a sharp 25.9% (Kyodo News, 1999). In 2013, AXA's sales in Japan for life and savings amounted to 10% of worldwide revenues (EUR 5.6 billion) and AXA Japan was ranked number 17 with a 1.9% market share in the country (AXA, 2013).

Niche Players. In contrast to the previous category, this quadrant consists of emerging or developing activities with room for expansion in the face of increasing demand (domestic or foreign), together with a rather atomized competition structure. In terms of the maturity of its products or sectors, it is rather more comparable to the next quadrant (in an earlier stage of the product or sector lifecycle), with possibly a vertical and/or horizontal orientation of investments and less intense competition. The most significant difference between niche players and cherry-pickers, in addition to the type of investment, Greenfield in the former, and M&A in the latter, is the source of growth which is organic for niche players and external for cherry-pickers. These foreign direct investors identify under-served industries where latent local demand may exist, and use a competitive advantage such as brand image, patent, technology, drawn from experience in its home market of other markets. Therefore, niche players can be seen as buying market share, following a horizontalization strategy, by selling existing products

or services in the Japanese market; once the niche has been developed and the investor has gained enough local experience and reached sufficient economies of scope, it may then expand its offering to other products/services or even to other industries.

Examples of companies in this quadrant are not as obvious as for rescuers since those companies tend to be smaller and in private hands. Niche players' activities are frequently related to R&D, such as Belgian firm Umicore building a lithium-ion battery factory in Kobe (JETRO, 2010), and to various sectors whereby entrepreneurs fill vacant niches in the Japanese market. Style France falls in this category, selling custom-made French furniture to well-heeled Japanese consumers. After working for a French car manufacturer, Jean-Marc Lisner discovers Japan in 1985, and he then spots an opportunity to sell French furniture in Tokyo at a time when the Japanese are hungry to spend their real-estate bubble-inflated cash on European-style decoration. After selling his original stock, he decides to have furniture made to order to fit Japan's limited space and purchases the Style France import-export home furniture company from a Japanese owner eager to retire. In order to acquire the business, he first benefitted from personal loans from his family and from French banks in Tokyo. He decides to bypass the Japanese multi-layer distributer/whole-seller system by directly opening two stores and several corners inside major department stores. At that time, little competition exists for this offering, Ikea had not yet entered Japan, and the domestic giant Nitori sells only Japanese-styled furniture. Over time, he had to fiercely negotiate with department stores to keep his staffing costs and store commissions low in the store corners in the face of a stronger euro for instance. Financing issues arose as French banks in Tokyo became reluctant to lend to small businesses, and Lisner later borrowed from Japanese banks using the Japanese home he owned as collateral. After 20 years of continuous and successful operation in Japan, Lisner sold his business, including inventory and stand-alone stores and department store corners, to a Japanese company in 2007, while retaining ownership of and licensing the brand, therefore receiving royalties on sales. However, the Lehman shock resulted in many of its French suppliers to close their doors and the Japanese activity was brought to a halt; the Japanese owner decided to stop its Style France operations to focus on its core business.

Some niche-players with a long presence and established brand name in Japan have developed into "veterans". These foreign direct investors have made their Greenfield investments long ago, at a time when their sector was in an early stage of development, when the market was just emerging in Japan, or when specific demand emerged. The timeline of these companies' development in Japan can help better understand the local status they have gained. With their established presence and their acknowledged brand name, veterans are considered legitimately foreign – if not quasi-Japanese companies – or inescapable with no Japanese equivalent. In the luxury industry for instance, foreign brands have not only overcome the liability of foreignness (Zaheer, 1995), but have also learnt to take advantage of it to attract a Japanese customer base with an insatiable appetite for foreign brands. Over time, when their market's growth rate slows down and the field becomes more mature, these veteran niche-players turn into empire-builders. The difference between veteran niche-players and empire-builders depends on the maturity and rivalry intensity of their market.

Examples of niche-players turned veterans and empire-builders include LVMH (luxury goods), BNP Paribas (investment banking), and Air Liquide (industrial gases). Louis Vuitton, a French fashion house founded in 1854 which is part of French luxury giant LVMH, since 1987, opened its first stores in Japan in 1978. As of 2013, 11% of its worldwide stores were in Japan (370 out of 3,384) and Japan accounted for 7% of its worldwide sales by geographic region of delivery (LVMH, 2013). BNP Paribas's history in Japan dates back as far as 1867 when the precursor of BNP, Comptoir National d'Escompte de Paris, opened a branch office in Yokohama. Later in 1907, Paribas participated in the Government of Japan's bond issue in Europe. Today, BNP Paribas employs more than 700 people in Japan (BNP, 2015). Air Liquide, with sales of EUR 15 billion worldwide in 2013, established an air separation unit presence in Osaka in 1907 just five years after the creation of the company in France (Air Liquide, 2013). With a presence throughout Japan, Air Liquide is today number three in the Japanese industrial and medical gas market, with a market share of nearly 20% (Air Liquide, 2007).

Cherry-Pickers. In this quadrant, foreign direct investors – market or technology seekers – are attracted to promising local SMEs, either from a verticalization perspective in order to exploit Japanese production factors (for instance technology), or from a horizontalization perspective to take advantage

of specific local demand (for instance serving the needs of the elderly in the Japanese market). In either case, the acquisition of a promising local SME can grant quick access to the Japanese market for either large or small foreign companies eager to quickly tap (domestic/foreign) market potential and/or take a stake in a growing local company in need of capital, of access to international distribution networks, or of complementary capabilities. The acquired Japanese assets can then be integrated into the foreign direct investor's international value chain.

Niche players and cherry-pickers can be considered to have symmetrical strategic intentions, whereby the former brings foreign expertise to Japan, while the latter takes know-how from Japan. This mirror effect helps further differentiate the two.

Saint-Gobain, founded in France in 1665 and the world leader in the habitat and construction markets with reported sales of EUR 42 billion in 2013, 185,000 employees and a presence in 64 countries, can be considered a cherry-picker in Japan, through its acquisition of MAG, Co. (Saint-Gobain, 2015). Since the 1970s, Saint-Gobain had been licensing some of its insulation technology to MAG Co., Japan's leading glass wool insulation maker. In 2008, Saint-Gobain acquired 44% of MAG from Nippon Sheet Glass Co., leading to an equal JV with Taiheiyo Cement Corporation. In 2010, it acquired the remaining MAG shares from Taiheiyo therefore owning 100% of the company and it changed its name to MAG-Isover. According to Francois-Xavier Lienhart, currently President-Resident Director of Mag-Isover K.K. and Deputy Delegate for Japan at Saint-Gobain K.K., Saint-Gobain considers being present in a given country only when it owns at least a factory there. The rationale behind investing in local production facilities stems from the bulky nature of Saint-Gobain's products, which would otherwise make the shipping of fragile goods both costly and difficult. Large corporations often use more than one entry strategy, as in the case of Saint-Gobain, which opened a commercial office in Tokyo in 1985 to sell glass products, beads and powder manufactured elsewhere, amounting to a niche-player entry.

Several other examples of cherry-pickers can be identified from JETRO (2010, 2011), in either an horizontalization or in a verticalization perspective, or even both, as with Petrobras which bought out Nansei Petroleum of Okinawa, aiming not only to distill Brazilian crude oil into gasoline to sell to the Japanese market, but also to export oil from Japan. In a vertical perspective, Sun Tech Power bought out MSK with the purpose of obtaining the knowhow of integrating solar batteries into building material. As such, the acquisitions of manufacturing techniques and product design have become important targets in coming to Japan. In a more horizontal perspective, TEVA's acquisition of Taiyo Pharmaceutical Industry, Japan's third largest generic drug manufacturer was squarely aimed at gaining market share in Japan and achieving regional growth from a Japanese base.

DISCUSSION

At this stage, the goal is no longer to identify opportunities (horizontalization or verticalization) targeting mature or newly-developing segments, or to select the most appropriate entry mode (Greenfield or M&A), but rather to clarify the conditions of each type of investment (Lemaire, 2010, 2013) (Figure 3). Investment decisions must be continuously evaluated and adjusted following the maturing of markets (e.g. competition increasing inside or outside Japan) and the emergence of new opportunities (e.g. local acquisition after an initial Greenfield investment).

Insert Figure 3 about here

Empire Builders

These foreign companies are well-established in their home market and want to acquire a similar position in Japan. The goal is to gain market share not only in Japan, through horizontal investments, but also possibly in other markets, in a verticalization strategy taking advantage of Japanese-specific capabilities, or a combination of both horizontal and vertical logics. These companies operate in activities such as retail food and beverage, but also fast-moving consumer goods, or pharmaceuticals

and cosmetics, relying on local or imported products. Office and retail spaces are quickly opened to gain a local presence, monitor local customers' needs and wants, and eventually provide customized offerings. Mainly Greenfield investments should not preclude the acquisition of local businesses to internalize transactions costs, taking advantage of the 'low tide' period of the recent post crisis period in Japan, and of the purportedly lower cost of local assets – particularly local companies hit by the global financial crisis. Empire builders, which already have an established customer base with strong brand recognition abroad and possess a large portfolio of geographic locations, should embed themselves closer to existing and potential Japanese customers and/or suppliers.

Key success factors consist of the fit between the parent company's corporate culture and Japanese values, as well as efforts to reconcile the two, the ability of the veteran to address specifically-local demand in terms of products, delivery times, or packaging, or the evolution of the proportion of expatriates or managers from the country of the parent company in the Japanese subsidiary. In order to allow the development of such penetration strategies (Root, 1987), companies need to consolidate their local position by 'going native' and demonstrate corporate concern for local issues (Lemaire, 2013).

In the case of Thales Japan, Chairman and CEO Moraud contended that the company should have followed localization efforts long ago, when its industry was not as developed or mature, instead of "going it alone" and selling its own technology in its name. Today, Japanese competition has caught up in terms of technology and such moves are more difficult to achieve. However, in its bid to gain market share, Moraud has witnessed a gradual change in the private sector, as opposed to public contracts, whereby Japanese clients facing financial and competitive pressures adopt a more market-oriented logic. The quandary for Japanese clients with dwindling purchasing budgets has become whether to either buy less sticking to Japanese suppliers only, or to buy for less from foreign suppliers. For instance, Thales recently successfully bid for supplying Japan Airlines with a new in-flight entertainment (IFE) system, partly due to Japan Airlines cost pressures following its bankruptcy filing and subsequent restructuring, in effect obeying a market-oriented logic without the once-unfaltering support of the Japanese government. In conclusion, despite ever-present NTBs, empire-builders in Japan may still need to become more localized by seeking partnerships with or acquiring Japanese companies, and may still be able to grow their market share with Japanese clients pressured to reduce their costs and to pursue a more transparent market-oriented purchasing strategy, favoring business value over suppliers' countries of origin.

Rescuers

Because competition is high and the industry is mature, if not saturated, foreign companies have few options to enter the market besides acquiring an existing player. In other markets abroad, Japanese companies can also be competitors of the foreign direct investor. This type of investment is driven by the identification of an ailing target willing, as a 'last resort' strategy, to be taken over by a foreign bidder. And because of the large size of the Japanese target, the takeover is usually completed in stages until a control of the Japanese target has been reached (e.g. the progressive stake of Walmart in Seiyu). This type of investment is appropriate when the foreign acquirer lacks local brand name recognition, when the industry is locked in cross-shareholdings and integrated buyer-supplier relations, when the best locations are already taken, when the foreign company looks for economies of scale and scope by way of vertical investments, or in a nutshell, when the market is mature.

In the pre-acquisition phase, the firm evaluates local factors (government, competition) and contexts (position in Japan and in country of origin, bilateral relationships between Japan and country of origin) facilitating the takeover or the controlling stake. In the post-acquisition phase, several key issues, such as the respect of Japanese traditional labor relations or national identity, must be evaluated.

According to Saint-Gobain's Lienhart, most Japanese M&A target companies accept to be absorbed by a foreign entity when they experience financial difficulties, when they are family-owned with no heir and a concern for the future of their employees, or when a conglomerate wants to shed a non-core money-losing business, thus blurring the line between rescuer and cherry-picker strategies. For instance, in 2008, Nippon Sheet Glass Co. was still digesting its acquisition of the British giant Pilkington two years earlier and was in dire need to reduce its debt, leading it to selling its shares of MAG to Saint-

Gobain. Saint-Gobain's decision had been hinging on Taiheiyo agreeing on giving control and management rights to its new partner. Likewise, in 2010, Taiheyio was experiencing a price war in the cement industry, along with overcapacity and several infrastructure projects frozen by the government of then Prime Minister Hatoyama, thus forcing it to sell its remaining stake in MAG to Saint-Gobain. Taiheiyo's only demand at that time was to keep Japanese as its official business language to avoid putting stress on its employees in addition to that of the purchase by a foreign company. The same phenomenon has been observed for instance in the animal health industry, with Takeda selling its business to Schering Plough, Shionogi to Boehringer Ingelheim and to Aventis in agrochemicals, and Sankyo to Novartis. More recently, scandal-hit Toshiba agreed in 2016 to sell its home appliances business to China's Midea for USD 500 million (Lewis & Inagaki, 2017) and Hitachi's power tools unit Hitachi Koki has accepted to be acquired by U.S. private equity firm KKR for USD 1.3 billion (Fujita, Gallagher, & Kim, 2017).

Niche Players

Foreign companies must identify the local needs unmet or insufficiently fulfilled by domestic or foreign competitors, on the basis of the expertise in their country of origin and other countries where they are operating, then select activities and areas poorly served by local or foreign players, giving them room for further development, while avoiding protectionist attitudes and regulations. This process requires deep local business connections and access to reliable business intelligence, as well as strong financials with cash reserves to sustain the initial push during which its products and/or services must gain local acceptance and subsequently generate profits.

Hence, companies involved in such ventures may be large and healthy multinational companies, or smaller experienced firms in a good position to raise funds or to develop franchising or licensing agreements allowing for a lower initial investment and higher brand acceptance through a local partner associated in the project, provided they keep sufficient control of the local venture. In the animal health sector for instance, Merial Japan's country manager Michel Lachaussee remarks that most of the foreign companies operating in Japan are niche players who can access the market only through innovation, and in segments where Japanese companies are weak or absent.

Key success factors consist of the ability and access to enabling institutions or actors, to identify high-potential/long-lasting opportunities with appropriate partners, over a relatively long return-on-investment period (family businesses may therefore be better targets than listed companies), and of the capacity to negotiate with national and/or regional authorities to take advantage of subsidy programs. Niche players should develop a brand visible at the international level and the capacity to protect it and any associated intellectual property. Recommendations include in priority, building intercultural capabilities, especially in negotiating with local authorities and potential partners before entry, and with selected partners after entry.

According to Lisner from Style France, niche players need to develop the capacity of finding financing both from home and host countries, adapting products to customers' needs, offering after-sales service especially when offering products new to the market, training local personnel to sell original products, learning the local language to operate effectively and gain trust, and still retaining its foreign originality, not only allowing for product differentiation but also for negotiating special conditions with local partners beyond usual practices. This is consistent with Pudelko and Mendenhall (2007) which assert that while foreign companies do not need to completely localize their activities, they should adapt their management to the Japanese environment.

Cherry-Pickers

Foreign companies are eager to internalize core capabilities of small and medium Japanese firms, especially those with proprietary technology or rare skill sets, such as 'monozukuri' or processes drawn from excellent craftsmanship learnt over a long apprenticeship (Saito, 2006). These Japanese companies can be relatively new or established, and have enjoyed stable growth in their market. Such entry strategy requires intimate knowledge of the target business or access to a reliable local network (through banks, consulting companies operating in Japan on a permanent basis and with a specialized focus, or

universities) to select promising targets and to carefully examine their organization and their potential and existing markets. Key success factors for cherry-pickers are similar to those for niche players. Examples of cherry pickers include in the pharmaceutical industry Roche with Chugai in 2002 and Merck with Banyu in 2010, and in the automotive component industry Valeo with Niles in 2011.

According to Brian Minahan, Director of Asia Business and Technology Development of Saint-Gobain K.K., Saint-Gobain is developing cutting-edge warning systems to establish links with external players and ease entry into the market. The company started NOVA External Venturing around 2006, constantly on the lookout to set up strategic partnerships and gain technology complementary of its own core business. Such efforts resulted in the evaluation of about 2,000 start-ups, 40 contracts, 3 acquisitions, and several joint development agreements, but none in Japan yet. For Minahan, establishing relationships with promising start-ups is a good entry point into the Japanese market, as these young companies do not yet have a strong corporate culture which makes integration more difficult as in M&A involving established Japanese firms. In addition, the company founded Saint-Gobain University Network (SUN) to benefit from the most recent scientific advances made by the academic world and gain access to high-level skills, and signed collaboration contracts with Japan's National Institute for Materials Science (NIMS). Indeed, learning about Japanese firms for sale or even open to an acquisition has proven difficult. According to Romain Thune, Regional Relationship Manager and Head of Japan Multinational Corporations Desk Coverage at BNP Paribas in Tokyo, cherry-pickers have typically access only to large firms for sale through networks with trading companies for instance, and almost no contact with SMEs for sale. He notes that the cherry-picker approach is especially relevant for distribution purposes, since creating one's own distribution network is often costly.

For Saint-Gobain's Lienhart, foreign companies made the common mistake of opening minority-owned commercial offices though JVs or with trading companies before the burst of the bubble in Japan. This usually gave Japanese companies access to technology they needed and to a distribution network abroad for their own products, thus providing unequal benefits to the foreign partners. And in many cases, Japanese companies welcomed a minority stake from a foreign company for a fresh infusion of capital, but with no desire to work together. This is consistent with Lu and Hébert's (2005: 743) findings whereby "in the presence of technology-intensive assets […] increases in foreign equity control tended to stabilize international joint-ventures [IJVs]". With the burst of the bubble, majority-ownership JVs became more accessible, as long as a suitable company in need of capital and willing to sell itself to a foreign buyer could be identified.

Evolution after Entry

Referring to the dynamic evolution of entry modes over time, contributions from the panel of foreign investors collected in this research pinpoint to strategic entry paths from initial positioning in the matrix to complementary entry modes to reinforce their presence and legitimacy in the host country. These dynamic considerations include embeddedness and the establishment of global networks stemming from a follow-the-(global) customer approach in deepening customer-supplier relationships around the world. Embeddedness is defined here "the state of dependence of a company on its suppliers and customers in a particular supply network structure" (Choi & Kim, 2008: 5).

Previous research on internationalization has already highlighted the strategies firms adopt to fit the different stages of the product lifecycle from an economic perspective, lowering costs and increasing profits (Vernon, 1966). However, the findings of this paper contribute to making FDI more embedded into the host country. Embeddedness into the host environment is especially important for foreign firms that deal with unfamiliar environments, cultural differences and distances, and thus have to overcome the liability of foreignness (Zaheer, 1995). Local embeddedness enables deeper firm relationships with their local partners and the identification of underserved needs, hence increasing innovation (Andersson, Björkman, & Forsgren, 2005). As with many firms interviewed in this research, international companies use more than one entry strategy over time, adapting to changing market conditions and to shifting competitive pressures. For instance, LVMH, having started with a niche-player strategy, turned to an empire-builder approach when the luxury market matured, and Saint-Gobain, having entered as a niche player leveraging proprietary technology, adopted a cherry-picker positioning to further embed itself in its sector.

When a foreign firm has entered as a niche player through export or licensing for instance, it must become embedded in the host country in order to be considered a viable local supplier. To show commitment to its local market, an on-site industrial presence is a must, with a local factory for example. This is Saint-Gobain's strategy, as it considers that Japanese customers look for suppliers which can accommodate product co-development, just in time deliveries, and local customer service, thus calling for a strong local presence beyond a sales office. Japanese customers take a risk when picking a new unproven foreign supplier which may fail to deliver, be late, increase prices or even disappear. Since obtaining the status of authorized supplier takes time, foreign firms need to allocate 'presence creation costs' (finding potential customers and developing relationships with them), start with a single product for which they have experience, and then later expand into related products or services once they have established sales relationships and trust.

Oftentimes, Japanese firms are interested in foreign suppliers for their network of established offices in other countries. In 2012, Faurecia, the world's leading supplier of vehicle interior systems, signed a new 50/50 JV agreement with Howa Textile Industry Co., Ltd., thus leading to the creation of Faurecia Howa Interiors (FHI) based in Atsugi (Japan) and dedicated to the development of vehicle interior systems such as door panels, in-vehicle insulation, soft trim and roof trim. The stated objective of the partnership is to "become a preferred Nissan supplier in Japan for door panels and soft trims and boost efforts to provide joint support from Faurecia and Howa to Nissan on a truly global basis" (Faurecia, 2012).

CONCLUSION

We proposed a model of inbound FDI in Japan and identified four types of investors based on the nature of investments and market maturity. Empire builders, with an established presence and brand name, have undertaken Greenfield investment in mature markets. Niche players, filling a local gap with differentiation, have entered local less mature markets by setting up operations from scratch. Rescuers have taken over ailing local companies in mature markets. And cherry-pickers have acquired promising local SMEs in promising markets.

Our research contributes to the understanding of market entry in mature and rather protectionist markets. We found that foreign firms are more likely to 1) establish greenfields because of the limited availability of takeover targets and a general reluctance for domestic acquisitions by foreign buyers; to 2) engage in acquisitions as long as they can identify local companies which experience financial difficulties, or are family-owned with no clear succession plan, or are part of a conglomerate needing to divest some assets; and to 3) create IJVs or become more embedded in the local economy in order to be considered viable local, regional, or global business partners by local customers.

While the first result is consistent with past research (see Caves and Mehra, 1986), the second and third findings advance scholarship on the reasons why local firms may be receptive to foreign takeovers, or at least to working with foreign firms in their country. These findings suggest that foreign market entry mode, whether as an acquirer, an IJV partner, or a respected and desirable independent business partner, depends not only on the determinants at the parent, subsidiary, industry, and country level (Slangen & Hennart, 2007), but also on the predisposition and motives of local takeover targets and business partners.

When considering a takeover, pre-acquisition evaluation typical of the due diligence process (Shimizu, Hitt, Vaidyanath, & Pisano, 2004) focuses on factors related to strategic and cultural fit, employee capabilities and business competences, investment and financing issues, and legal, tax and IT issues (Ahammad & Glaister, 2013). In Japan and in countries with similar characteristics in terms of maturity, protectionism and cultural and institutional distance, pre-acquisition evaluation should also examine whether a target firm is in a situation which makes it more likely to accept a takeover by a foreign company. When mulling creating IJVs or finding local customers or suppliers, foreign investors must appeal to local targets and demonstrate how they make attractive business partners. Embeddedness has been found to affect future partnerships (Handley & Benton, 2012) and Japanese companies may be more receptive to IJVs or to using foreign suppliers in Japan when they can take advantage of the global networks of their foreign partners. Dealing with non-local firms is inherently riskier and Japanese firms expect added benefits to compensate this additional uncertainty.

This empirical research has revealed a predominance of niche-players, whereby established French companies entered Japan when their market was not yet mature and have sought to become household names. In addition, several foreign companies were found to engage in simultaneous FDI strategies, using rescuer, cherry-picker, and niche-player approaches alternatively based on market conditions and available firms to be taken over. Furthermore, niche players can over time become empire-builders when going up against increased competition and lower growth rates in their sector. These findings can possibly apply to similar markets in terms of maturity (Slangen and Hennart, 2007), protectionism (Zhang and He, 2014) and cultural (Shenkar, 2012) and institutional distance (Kostova and Zaheer, 1999; Xu, Pan, & Beamish, 2004). The case of Japan may provide lessons for investments in other countries facing similar conditions, such as a shrinking domestic market and increased international competition.

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FIGURE 1. Direct investment in reporting economy (Inbound FDI flows) (US Dollars at current prices and current exchange rates in millions) (Source: UNCTAD, 2017)

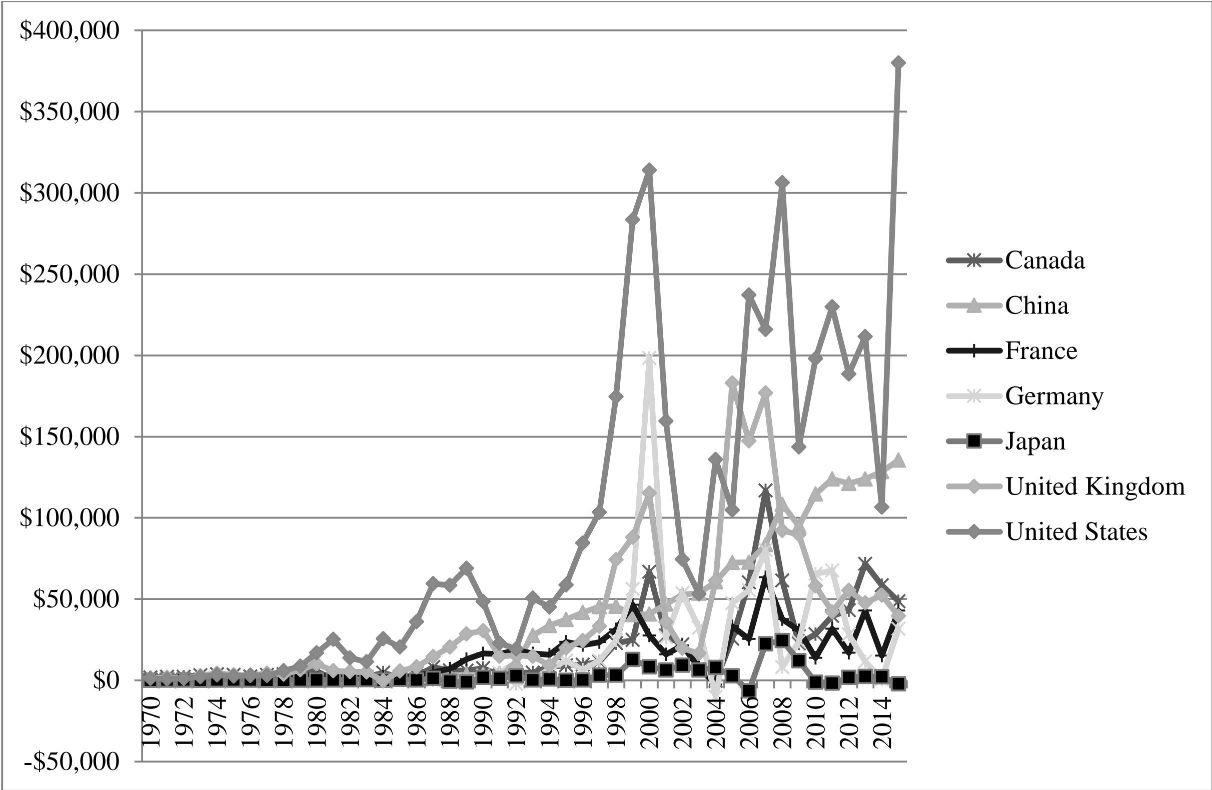

FIGURE 2. Proposed diagnosis matrix of inbound foreign direct investments in Japan

Nature of Investment	High	Low
Greenfield	**Empire builders** Leveraging core competencies in a saturated market *Market seeking FDI*	**Niche players** Filling a local gap with differentiation through organic growth *Market seeking FDI*
M&A	**Rescuers** Takeover of ailing local company *Efficiency / Strategic asset seeking FDI*	**Cherry-pickers** Acquisition of promising local SME *Strategic asset seeking FDI*

Market Maturity

FIGURE 3. Proposed prescriptive matrix of inbound foreign direct investments in Japan

Nature of Investment	Market Maturity: High	Market Maturity: Low
Greenfield	**Empire builders** Transfer proven business concept, introduce radical product/ service/ business model innovation or differentiation, leverage established brand equity and "foreignness"	**Niche players** Identify long-lasting/ high potential opportunities, obtain financing, import value added inputs, expect long payback period, develop local relationships to follow clients abroad
M&A	**Rescuers** Guarantee corporate liquidity, limit redundancy plans, respect corporate value and image, guarantee welfare of employees, leverage established business relationships	**Cherry-pickers** Develop cutting-edge warning systems in key activities, rely on effective local intermediaries, invest in minority/ majority JVs, find complementary businesses

TABLE 1. Entry strategies and profile of some of the companies surveyed and others

Company	Type of entry strategy	Activity	FDI entry in Japan	Incentive to invest in Japan
LVMH	Niche-player Empire builder	Luxury goods	1978	Expand market size
BNP Paribas	Niche-player	Investment banking	1867	Follow global clients
Saint-Gobain	Niche-player Cherry-picker (MAG)	Habitat and construction	1975 2008	Expand market size, license existing technology and acquire new technology
Style France	Niche player	Custom furniture	1987	Fill a market gap with unique product
Merial	Niche player	Animal health	1997	Fill a market gap with innovation
Renault	Rescuer (Nissan)	Automobile	1999	Access to technology, economies of scale, synergies
Thales	Empire builder	Electronic systems	1971	Expand market size
Valeo	Niche-player Cherry-picker (Niles)	Automobile supplier	1985 2011	Strengthen position in Japan
Faurecia	Cherry-picker (JV with Howa)	Automobile supplier	2012	Offer a more global OEM supply
bioMerieux	Niche-player Cherry-picker (JV with Sysmex Corp.)	In-vitro diagnostic	1988 2008	Improve promotion and distribution in Japan