

Do Exits Proxy a Liability of Foreignness? The Case of Japanese Exits from the United States

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Abstract

Progress in understanding the liability of foreignness requires accurate measurement of this concept.

This paper investigates whether exits of foreign affiliates from a given host market provide a reliable measure. We tackle this question by investigating 32 exits of Japanese manufacturing affiliates from the United States. Our goal is to assess the extent to which exits are driven by a liability of foreignness, and thus whether exits can serve as a reliable measurement of this liability. We find that less than half of our exits are attributable to a liability of foreignness. We conclude that while the data confirm a liability of foreignness for Japanese early entrants into the United States, the presence of many other motives for exit suggest caution when inferring such a liability from exits, especially when exit costs are low.

1. Introduction:

One of the central tenets of the theory of the multinational enterprise (MNE) is that MNEs are at a disadvantage compared to native firms when they enter foreign markets (Hymer, 1960; Hennart, 1982), a disadvantage that has been subsequently called the “liability of foreignness” (Zaheer and Mosakowski, 1997). Hymer (1960, p. 34) gives three main reasons for such a liability: (1) foreign firms have less information than local firms on how to do business in a foreign country; (2) Foreign firms are also exposed to discrimination by governments, consumers and suppliers, and (3) to foreign exchange risk.

The liability of foreignness plays a central role in the theory of the MNE because it explains why only a select set of international interactions are handled through foreign direct investment. The theory argues that coordination within MNEs occurs when it yields greater rents than coordination through prices, and when these rents are sufficient to offset the additional costs of operating abroad (the liability of foreignness). Hence the level of the costs caused by the liability of foreignness determines in part whether a given international interdependence will be organized by an MNE, by the market, or not at all (Hennart, 1982). Yet, despite its theoretical importance, there has been only limited study of this concept (Mezias, 2001; Pennings, Barkema, and Douma, 1994; Zaheer and Mosakowski, 1997). Do foreign firms systematically incur a liability of foreignness when they enter foreign markets? What are the main causes of this liability? How do we measure it?

In this paper we argue that foreign firms do face a liability of foreignness, but that the way scholars have tested for its existence, i.e. by looking at exit rates, has clear limitations. As a result, the empirical evidence on the existence and impact of the liability of foreignness has been mixed. Inferring the existence of a liability of foreignness from exits is fraught with difficulties, as exit is a

complex and ambiguous phenomenon. That point is made first theoretically, by surveying the literature on exits, and then empirically, by analyzing the reasons why 32 Japanese manufacturing affiliates exited from the United States. We show directly how the liability of foreignness led to the exit of some Japanese affiliates from that country. However, our study also highlights the danger of inferring the presence of such a liability from exits, as there were many other reasons for exits.

2. The liability of foreignness

The key argument of the liability of foreignness is that foreign firms wanting to do business in a foreign country face additional costs compared to their local competitors. Foreigners must collect information on local conditions that comes to a large extent free to local firms; they may also be subject to discrimination by host-country governments, suppliers and consumers¹; they also face foreign exchange risks that are not faced by their purely local counterparts.

While the above seems intuitively true, what is its importance in practice? Do firms doing business abroad experience greater difficulties than firms operating at home? Do these difficulties translate into lower profitability for foreign affiliates and do they lead to their exit? As we will see, the empirical evidence on this point is mixed.

With the exception of Mezias (2001), who showed that foreign firms had more U.S. labor lawsuits judgments than US-owned firms, the few studies that have tried to answer these questions have tested for the existence of a liability of foreignness facing foreign investors by looking at the survival rates of their foreign affiliates. The argument is that coping with a liability of foreignness will depress profits, and that this in turn will cause affiliates to exit. Hence one way to establish that there is a liability of foreignness is to show that foreign firms have a lower survival rate than their domestic counterparts. As we will show below, for this argument to hold, a number of conditions

must be present. First, exits must be correlated with poor profitability. If firms also exit when they are profitable, then exits are a poor proxy for poor performance. Second, there must be a tight link between a liability of foreignness and exits. If exits are caused by other factors, then we cannot infer the presence of a liability of foreignness from exits. For example, if a foreign affiliate closes not because it experiences discrimination from local suppliers, customers, or governments, but because its industry is in a slump, then one should not assign its exit to a liability of foreignness.

Differences in exit rates between domestic and foreign firms

Zaheer and Mosakowski's pioneering article (1997) illustrates the difficulties that arise when using exits to measure the liability of foreignness. The two authors looked at the survival of market-making foreign exchange trading rooms. They hypothesized that such trading rooms established outside the country of the parent (foreign trading rooms) would face a liability of foreignness and would exhibit lower survival than those established in the country of the parent (local trading rooms). They therefore ascertained whether a particular trading room was listed as a market-making trading room in a particular place, and considered that it had exited if it was not listed for two consecutive years. Implicit in their analysis is that delisting occurs when the trading room has profitability problems, and that these problems are caused by a liability of foreignness. As expected, they find that after 20 years the survival rate of foreign rooms is (statistically) significantly lower than that of local rooms (both are around 40% of the initial population). They conclude therefore as to the presence of a liability of foreignness.

As we will see below, delistings (i.e. exits) do not necessarily result from poor profitability. According to the authors, there are low barriers to entry and exit to being a market-maker.² To be listed as such only requires a commitment to always being ready to buy and sell the same currency. It

is therefore unclear how (temporarily) withdrawing from being a market-maker in a given location means failure, as, given the low transportation and communication costs in the market for foreign exchange, a firm that exits can probably serve the market from another location. MNEs, being present in many markets, may be indifferent as to where they buy and sell foreign exchange. Exits may also result from strategic change. A firm may have chosen to no longer be a market maker in a particular location because it has decided to concentrate on a different set of currencies. Since in this industry both the direct and opportunity costs of exit are low, exit may take place for these and possibly other reasons unrelated to poor profitability.

Another study that compared the exit rate of domestic vs. foreign firms is that by Mata and Portugal (1997). The authors analyzed the survival patterns of two samples of domestic and foreign owned units operating in Portugal. After controlling for a number of firm and industry characteristics, such as technological intensity, unit size and legal form at entry, parent diversification, and the growth rate and the concentration ratio of the industry entered by the unit, they did not find any differences in gross exit rates between foreign and domestic units.

Pennings, Barkema, and Douma's (1994) research setup is slightly different, since they compared the survival of the domestic and international subsidiaries of a set of Dutch firms. They found that subsidiaries established in the Netherlands had lower exit rates than those established overseas, but they looked at gross exits (i.e. they did not distinguish by form of exit, that is whether exits took the form of selloffs or liquidation of the affiliate) and they did not control for economic conditions in the target markets. Worse conditions abroad (impacting both native and foreign firms) may have accounted for the difference.

Difference in exit rates between foreign affiliates

As we have seen, one of the purported causes of a liability of foreignness is the foreign investor's lack of knowledge of the local economy. That lack of knowledge should vary with the cultural distance between the home country of the parent and the foreign country where its affiliate is doing business (Johanson and Valhne, 1977). Hence another way of testing for the presence of a liability of foreignness is to compare exit rates of foreign affiliates located in countries that are at varying cultural distance from the investor's home country.

This approach has been used in a number of studies, with mixed results. Barkema, Bell and Pennings (1996) looked at the gross exit rates of 225 foreign affiliates of Dutch firms. They found that affiliates located in culturally farthest countries were more likely to exit.³ Park and Park (2000) analyzed the gross exit rates of 2,090 foreign affiliates of Korean firms. After controlling for a variety of factors that affect exits, such as mode of entry, economic conditions in the target market, and parent characteristics, affiliates in culturally distant countries did not have statistically greater gross exit rates than those in culturally closer markets. Larimo (2000) studied the gross exit rates of more than 2,600 foreign affiliates of Danish, Finnish, Norwegian and Swedish firms in over 50 countries. After controlling for the usual variables, he found that being located in a culturally distant country actually reduced the probability of gross exit.

A third way to test for the presence of a liability of foreignness is to look at the survival *in a given country* of affiliates of parents based in countries which are situated at varying cultural distance from that country. If there is a liability of foreignness, then that liability should be greater for the affiliates of parents based in countries which are culturally farthest from the target country. Li (1995) looked at the gross exit rate of the U.S. affiliates of foreign pharmaceutical and computer firms. He hypothesized that, everything else constant, Japanese affiliates, whose parents are at a high cultural

distance from the United States, should experience higher gross exit rates than the other foreign affiliates in his sample. After controlling for various factors, he found that gross exit rates for Japanese firms were not statistically higher than those for the other firms in his sample.

Hennart *et al.* (1997) looked at exits by liquidation and sale of a sample of North Europeans and Japanese affiliates in the United States. They hypothesized that Japanese affiliates, whose parents are at a greater cultural distance from the US than their North European counterparts, should experience higher gross exit rates. After carefully controlling for a large number of factors that affect exits, they found no statistical difference between the exit rates of Japanese and North European affiliates, whether exits took the form of selloffs or of liquidations.

McCloughan and Stone (1998) analyzed a sample of foreign affiliates in Northern England. Again the nationality of the parent had no impact on gross exit rates, even when controlling for industry and mode of entry.

A conclusion that can be drawn from this survey is that the evidence for the presence of a liability of foreignness that would seriously handicap foreign investors is mixed. The reason, as we will now see by surveying the literature on exits, is that gross exit rates are a rather noisy index of poor performance, and that the mixed evidence on the liability of foreignness is due to improper use of exits as an indicator for this key concept.

3. The literature on exits of business units

The literature on exits can be partitioned into two, that on exits of domestic units and that on exits of foreign affiliates.

Exits of domestic units

Duhaime and Grant (1984) asked the managers of 40 large American firms why they divested

their affiliates. Sixteen percent of the 59 divested affiliates had, according to their parents, acceptable profitability. The same question was put by Hamilton and Chow (1993) to the CEOs of New Zealand's 98 largest companies who had sold or liquidated 208 of their units (three-fourths of them were selloffs). They were asked to rank (from 1 = unimportant to 5 = very important) the reasons why they had closed their domestic affiliates. "Low return of units" was ranked at 4.2, but need to "focus on core activities" and to "meet corporate liquidity requirements" were not far behind with 3.8. Kaplan and Weisbach's (1992) study of the characteristics of units sold off by U.S. firms found that poor profitability was cited for only 22 percent of the affiliates, while accounting measures showed that only half of the divested units were making losses when divested. The findings of these three studies were basically consistent in suggesting that not all divestments were failures. While divested affiliates were typically poorly performing, a significant number were in fact profitable. Profitable affiliates were divested because of factors affecting the parents, principally worsening financial situation and changes in strategy (accounting for 31 and 42 percent, respectively, for Kaplan and Weisbach's selloffs). Affiliates that were less dependent on the rest of the firm (Duhaime and Grant, 1984) and less central to its business (Hamilton and Chow, 1993) were more likely to be let go.

Besides these survey-type studies, two recent econometric analyses have looked at the determinants of domestic exits. Sharma and Kesner (1996) analyzed the factors that affect the survival of diversifying entries made by American Fortune 500 firms. They found that industry factors (selling and advertising intensity of the entered industry, scale of entry, and the interaction of scale and seller concentration) tended to have a stronger effect on survival than firm-level variables (firm size and liquidity) or the relatedness between the unit and the parent. They noted the presence

of a large number of small-scale entries that were quickly reversed within a few years. Chang (1996) looked at the determinants of exit from a given line of business for all publicly-traded manufacturing firms in the United States. He found that the most important variable explaining exit was the scale of entry, with small stakes more likely to be let go. Relative performance and dissimilarity of the affiliate's business from the parent were additional factors. Chang noted that the firms in his sample were continuously changing their product configurations by divesting affiliates.

Exits of foreign affiliates

As discussed above, scholars have used two strategies to study exits of foreign affiliates. They have either concentrated on the exits of the foreign affiliates of parents based in a given country (or group of countries), or they have looked at the exits of foreign firms investing in a given host country. Gomes- Casseres (1987), Barkema, Bell, and Pennings (1997), Park and Park (2000), and Larimo (2000) are examples of the first strategy, while Li (1995), Mata and Portugal (1998), Hennart, Kim and Zeng (1998), Hennart *et al.* (1997), and McCloughan and Stone (1998) have taken the second approach.

Exits of all affiliates based in one country

Gomes-Casseres was one of the first to look at exits of foreign affiliates. He found that most of them did not take the form of liquidations/bankruptcies, but of selloffs (the unit was sold to another firm). Selloffs made up more than three-fourths of the 610 exits of affiliates of American MNEs that took place between 1900 and 1975. Gomes-Casseres argued that the predominance of selloffs among exits suggested caution when interpreting them as failure.

Larimo (2000) found that exits of the foreign affiliates of Nordic MNEs were affected by characteristics of the affiliate, by those of the parent, and by those of the environment. Affiliates that

had higher exit rates were those (1) which were joint ventured (as opposed to wholly-owned); (2) which manufactured products not manufactured by their parents; (3) which were owned by inexperienced parents (for which this was their first investment in that country); (4) which belonged to diversified parents; and (5) which were operating in slow growing countries.

Park and Park's (2000) results basically support those of Larimo. Like him they found that affiliates which were joint ventured and which manufactured a product different from those of their parents were more likely to exit. But they found that this was also true for affiliates created through acquisitions, and for those of small parents. Like Larimo, they found that the probability of exit was lower in fast growing markets.

Exits of affiliates located in a given country

A second way to study the determinants of exits is to compare the survival of affiliates of various parents in a single foreign host country. McCloughan and Stone (1998) focused on the gross exits of foreign-owned subsidiaries in Northern England. Their results broadly support those reported above, with acquired affiliates having higher exit rates, and some industry dummies significant.

Li (1995)'s findings on the determinants of the gross exits of the US affiliates of foreign computer and pharmaceutical firms are similar to those of Larimo and Park and Park. Like them, he found that exit rates were affected by characteristics of the affiliate (mode of entry, size at entry, diversification), of the parent (affiliates of inexperienced parents had higher exit rates), and by those of the environment (lower exit rates in fast growing US markets). Li concluded his article by recommending that, given the differences in motivation between selloffs and liquidations, these two forms of exit should be separately analyzed in the future.


Following Li's recommendation, both Mata and Portugal (1998) and Hennart *et al.*, (1998) separated exits into their two main components, liquidations/bankruptcies, and selloffs. Hennart, Hennart *et al.* (1998) used event history analysis to identify the reasons why 288 Japanese affiliates established in the US in 1980 had exited by 1991. They argued that the two types of exit, selloffs and liquidations, were likely to have different motivations. An affiliate that is liquidated or goes bankrupt ceases to exist as an entity. Its assets are sold piecemeal. In contrast, an affiliate that is sold by its parent continues to exist, but under different ownership. Because the affiliate continues to operate, one would think that its performance was good enough to attract interest from another firm. Hence, while one would expect affiliates that are liquidated or go bankrupt to have had low profitability, a higher proportion of those that are sold should be profitable. As predicted, Hennart *et al.*, (1998) found that their models of exits had a better fit when liquidations and selloffs were analyzed separately. Paradoxically, the variables used to explain gross exits did a better job explaining selloffs than liquidations. In other words, their results show that the reasons generally given in the literature for gross exits apply instead to selloffs. Hennart *et al.* found selloffs to be explained by characteristics of the affiliate (joint ventures, acquisitions, and affiliates manufacturing a product not manufactured by their parents were more likely to be sold--but not liquidated). Large parents were also more likely to sell their US affiliates (but not to liquidate them). A high rate of growth of demand in the industry entered reduced the chances the affiliate would be sold or liquidated. Similar results were found in Hennart *et al.* (1997) for a sample of Japanese and North European affiliates in the US.

Mata and Portugal (1998), who analyzed exits of 1033 foreign affiliates that entered Portugal between 1983 and 1989, also found that exits through liquidations and those through selloffs had

separate determinants. Minority joint ventures, for example, had a higher probability of being sold, but not liquidated. The same was true for affiliates that had been established through acquisitions. Large affiliates were less likely to be liquidated (but this had no impact on selloffs).

What can we conclude from this literature?

As we have seen, the liability of foreignness has often been tested by looking at exit rates. Implicit is the assumption that the liability of foreignness causes poor profitability, and that poor profitability leads to exits.

The literature on exits we have just reviewed paints a more complex picture. It shows that the view that exits are caused by poor profitability is an oversimplification. This for a number of reasons. First, surveys of why firms divest show that a significant number of exits are undertaken for strategic reasons, and involve profitable units (Duhaime and Grant, 1984; Hamilton and Chow, 1993; Kaplan and Weisbach, 1992). Exits result from a continuous process by which firms readjust their product portfolio and close down small stakes taken as options (Chang, 1996; Sharma and Kessler, 1996). The fact that most exits take the form of sales, as opposed to liquidations, seem to suggest that the affiliates that are let go can be profitably operated by other firms (Gomes-Casseres, 1987;  1998; Mata and Portugal, 1998). The literature also shows that the probability of exits depends on barriers to exit. Affiliates that are relatively easy to hive off tend to have higher exit rates. Hence, small affiliates, and those whose products differ from those of their parents, have a higher probability of exiting (Chang, 1996). Likewise, acquired and joint ventured foreign affiliates have a higher probability of exit than greenfield and wholly-owned ones because they are easier to sell (Hennart *et al.*, 1998; Park and Park, 2000). Acquired affiliates have already been carved off once, hence they can be severed again. By contrast, plants which are set up de novo

by their parents (greenfield entries) are more customized to their present owner. Likewise, joint ventures have low exit costs. Their contracts sometimes contain clauses which oblige one partner to buy the other partner's stake, thus facilitating exit through sale (Nanda and Williamson 1995). Partners in joint ventures have also good knowledge and an existing interest in the business, and hence provide ready buyers. As expected, the higher probability of exit of acquired and joint-ventured affiliates is only found for exit through sale, but not for exits through liquidation (Hennart *et al.*, 1998). This suggests that a significant number of selloffs result from strategic realignment, or the winding down of options. This view is confirmed by the fact that international selloffs and liquidations have different determinants (Mata and Portugal, 1998; Hennart *et al.*, 1998).

What this suggests is that the correspondence between exits and poor performance is likely to be clouded by the sale of entries made to "test the water" and by those which fall victims to the parent's strategic changes. This is especially likely when barriers to exit are low.

The literature also shows that the causes for exit are varied, and that they must be sought at three levels, the affiliate, the parent, and the environment. Hence, besides being caused by a liability of foreignness, exits depend on the economic and political conditions facing the affiliate and the parent, and on parent strategies. When testing for the presence of a liability of foreignness, it is therefore important to separate the additional risk caused by that liability from the baseline risk facing all units, foreign as well as domestic. One way to deal with this is by using matched samples of foreign and domestic firms, or by carefully controlling for all these factors. A difficulty will remain, however, if there are some systematic differences between foreign and domestic firms in the strength of the causal link between poor profitability and exit.

One can think of two such differences. The first one is that multinational firms have often the

additional option of exiting a given market and serving it from another affiliate in a different country. A second difference is that the foreign affiliate has an overseas corporate parent, and that, in contrast to domestic units, exits of foreign affiliates may be affected by events affecting the parent, and hence may have little to do with a liability of foreignness facing the affiliate. These two differences mean that a larger proportion of exits of foreign-owned than of domestic units may be caused by other factors than poor profitability.

Are those caveats overdone? Can they be safely dismissed as statistical noise, or should they be seen as significant concerns that might have invalidated most empirical tests of the liability of foreignness? The answer to this question requires a careful look at the circumstances and causes of exits. Since we need to bring to light not only the variety of causes that lead to exit, but also their relative importance, we have chosen a strategy that is midway between reporting one or two detailed case studies on one hand, and doing a large sample statistical study on the other. A few detailed case studies would provide us with rich insights as to the causes of exits, but would not tell us their relative importance. On the other hand, it is difficult for researchers using large samples to obtain detailed data on the causes of exit. Hence we propose to look in detail at a limited number of cases of exit and to find out their causes.

4. Case studies of Japanese Exits

Our goal is to ascertain the extent to which exits of foreign affiliates are caused by a liability of foreignness. An ideal population for that purpose is one where the investor is relatively inexperienced in managing in a foreign country that is culturally distant from his home base and one in which the costs of exit are significant. We chose therefore to look at the exits (to 1998) of the cohort of all Japanese manufacturing affiliates active in the United States in 1980. There are great

differences in culture between Japan and the United States and prior to the 1980s; Japanese firms had a very limited knowledge of the U.S. Manufacturing requires substantial investments (usually greater than those in sales or services) and the United States is such an important market for Japan that exit costs are significant. We cross-listed many separate sources, and are confident that we have close to the total population of all Japanese-owned manufacturing plants that were operating in the United States in 1980. Our population is characteristic of the early phase of Japanese investment in the US (Wilkins, 1990), with a higher proportion of trading-company investments and of ventures in food and metals than in subsequent Japanese investment in the United States.

Our unit of observation is the manufacturing plant. An ownership link between a Japanese firm and a US affiliate counts as one observation. Hence there are, for example, 10 observations in our database for the two plants (each owned by five parents) of Alaska Lumber and Pulp.

There were 411 ownership links between Japanese firms and their US manufacturing subsidiaries in 1980. We endeavored to find out for each of these links whether it had survived to the end of 1998 or whether it had exited. We count as exits (1) the liquidation of the affiliate, (2) the full sale of the parent's stake in the affiliate to another firm, American, Japanese, or third country; (3) the cessation of manufacturing (without closing the affiliate). In contrast to much of the work on exits that infers exits from not being on a list of affiliates, we positively verified all exits (through secondary sources and telephone interviews) and the form they took.

How many of these links were surviving at the end of 1998? We have data on 392 of our 411 links (95% of our population). Two hundred and twenty-five (or 57 percent of the 392 links for which we have information) were still in existence in 1998. One hundred and sixty-seven links had been dissolved. In 7 cases (1.7 % of 392), the affiliates were still in business, but had ceased

manufacturing. In 55 cases (or 14% of 392) the affiliates had been closed or liquidated, and in 105 cases (27% of 392) the affiliates had been sold. Of these 105, 62 had been sold to their joint venture partners and 43 to third parties. As in the case of US firms, selloffs made up the majority of the exits (63%), and the largest part was to joint venture partners.

We also tried to ascertain why these 167 ownership stakes came to an end. This proved to be remarkably difficult. Firm memory seems to be highly selective, with exits more easily forgotten than entries. Annual reports are short on the former, but long on the latter. We used secondary sources, such as books, press articles, company websites, and interviews with industry observers and existing or former employees of the affiliate, of its partner(s), or of its parents. From these 167 ownership links that were dissolved, there were 83 (or about half of the dissolved links) for which we could reconstruct a reasonably good story, thus giving us a representative sample of the overall population of exits.⁴ Because some exits involved multiple plants and Japanese owners, these 83 links correspond to 32 affiliate exits. Table 1 provides summary data on these affiliates, their parents, and their reasons for exit. Fourteen were greenfield entries (seven wholly-owned by Japanese firms, six joint ventures between Japanese and US firms, and one joint ventures between Japanese firms). Eighteen entries were acquisitions of US firms (eight full and ten partial). Fifteen affiliates were liquidated and seventeen sold. Appendix 1 gives a short history of each of the 32 cases.

What do these 32 exits show? We can make a first distinction between exits due to poor profitability (whether caused by the liability of foreignness or not) and those for which poor profitability did not seem to have been involved. Twenty-seven affiliates belong to the first group (Alaska Lumber and Pulp, Alpha Therapeutic, the Catalyst Company, Ceradyne, Daitom, Denka Chemical, Dorchester Fabrics, Everett Piano, Feltloc, Fletcher Oil and Chemical, Hitachi Consumer

Products, Honeylon, Kodiak Lumber, Marcrest Pacific, Matsushita, Micro Power Systems, Mitsubishi Aircraft, Mount Pleasant Chemicals, Neptune Packing, New England Drawn Steel, Oki Electric, Rosewood Knitting Mills, Sakura Noodle, Southern Metal Service, Topri, Transco Textiles, West Virginia Flat Glass) and five in the second (Alumax, Firestone Vineyards, Key Pharmaceuticals, Nachi Bearings, and Olga).

In Alumax's case, the Japanese parents, Mitsui and Nippon Steel, sold their aluminum assets back to Amax and replaced them with a long-term contract for aluminum. In both the Firestone Vineyards and Olga cases, the American joint venture partners exercised their option to buy back their Japanese partner's stake. Mitsubishi Kasei sold its minority stake in Key Pharmaceuticals when that firm was acquired by Schering-Plough. Nachi Bearing closed due to changes in the location of customers. None of these exits appear to have been due to management difficulties caused by a liability of foreignness.

We can further split the first category of 27 affiliates for which exit was a consequence of poor performance into two groups: those which exited due to the poor performance of the parent, and those which exited due the poor performance of the subsidiary. The first group, for which exits were *not* due to the poor performance of the affiliate, consists of two affiliates, Alpha Therapeutic and Sakura Noodle. Alpha Therapeutic's parent, Green Cross, was acquired by Yoshitomi after Green Cross was tainted by the scandal of HIV contaminated blood; Sakura Noodle's parent, Yoahan, went bankrupt due to over diversification and lax controls.

The remaining 25 affiliates can again be divided into two main groups, those which exited following difficulties that can be ascribed to a liability of foreignness, and those that exited due to problems which could have affected all firms, foreign or domestic. We put ten affiliates in the

second category (The Catalyst Co., Daitom, Dorchester Fabrics, Fletcher Oil and Refining, Honeylon, Kodiak Lumber Mills, Marcrest Pacific, Neptune Packing, Rosewood Knitting Mills, Southern Metal Service, Topri, and Transco Textiles). Some of these affiliates floundered because of the unexpected increase in costs (for example following the oil crisis) or because of declines in the demand for their products due to changes in tastes or technology. An example is the Catalyst Co., a joint venture of Nippon Shokubai and American Cyanamid. Its main customer, General Motors, decided to switch to a new type of catalyst, the manufacture of which laid outside the mission and competence of the joint venture, and the partners chose therefore to dissolve it. The cases of Southern Metal Service and Topri are slightly more ambiguous. Southern Metal Service, is a Gulfport, Mississippi, steel service center that was set up by Kanematsu Goshu, a Japanese general trading company, and an American partner to process hot bands and related products from hot-rolled steel imported from Mexico, Brazil, South Africa and other sources. In 1986 the US imposed so-called “voluntary restraint agreements” on these countries, thus shutting off Southern Metal Service from its steel suppliers, and Kanematsu decided to close its (by then fully-owned) subsidiary. It seems that Southern Metal’s supply sources and location made it particularly vulnerable to the imposition of these voluntary restraint agreements. Since these measures affected all steel processors, regardless of nationality, it is difficult to ascribe the failure of Southern Metal Service to a liability of foreignness.

Topri was invited by the Delco Electronics division of General Motors to supply it with printed circuit board. Three years later, Delco opened its own captive plant, thus forcing its Japanese parent to sell Topri to a US firm. We have no evidence that Delco’s behavior was caused by Topri’s Japanese ownership.

The remaining 13 exits can be ascribed to a liability of foreignness. In seven cases the Japanese experienced difficulties in human resource management. In five affiliates, Denka Chemical, Matsushita, Everett, New England Drawn Steel, and West Virginia Flat Glass, the Japanese owners did not realize the difficulty of transferring their “lean production” advantages to an acquired affiliate. Lean production techniques consist mainly in better human resource management, and they require significant shifts in worker behavior, shifts which are difficult to implement, especially in acquisitions. This is the story of Matsushita. The firm purchased Motorola’s Quasar television division, but was unsuccessful in its effort to reorganize the plant along “lean production” lines (Kenney 1999).

At Hitachi Consumer Products, the Japanese managers, faced with a very diverse labor force, ran the plant using US management techniques, even though they had set it up as a greenfield, and ended up with poor productivity and product quality (Kenney, 1999). At Micro Power Systems, a semiconductor manufacturer in which Seiko Epson had taken a majority stake, the managers, unhappy with Seiko’s lack of understanding of the business, persuaded their Japanese bosses to sell them the affiliate.

A second cause of failures that can be ascribed to a liability of foreignness is overoptimistic market forecasts, apparently due to a poor understanding of the target market. This is the story of Feltloc, Oki Electric and Mount Pleasant Chemicals. In the Mount Pleasant Chemical case, a joint venture set up by Sumitomo Chemicals and Stauffer Chemical to manufacture Sumitomo’s brand of forest insecticide, Sumitomo underestimated the strength of its established US competitors.

The remaining three cases of exit, Mitsubishi Aircraft, Alaska Lumber and Pulp, and Ceradyne, involve the Japanese firms’ dealing with the US government. Kyocera bought Ceradyne, a

custom maker of ceramic packages, but found that its ownership of the firm was making it difficult to sell to the Pentagon. It then decided to spin off the firm to one of its co-founder. The two other cases, Mitsubishi Aircraft and Alaska Pulp are less clear cut, but suggest that the Japanese firms either did not have the skills to deal with Uncle Sam, or faced additional hostility in doing so.

Mitsubishi Heavy Industry entered the United States in 1967 to sell its MU-2 business jet. Part of the plane was to be built in Japan, and part at a manufacturing plant Mitsubishi bought in Texas (Kujawa 1983). As the MU2 was going through FAA certification, a door fell off a DC10 at the Paris Air Show, leading to a tightening of regulations. This forced Mitsubishi to redesign the plane and delayed its launch. In the meantime, the yen as appreciated so much that making part of the plane in Japan was no longer competitive. Mitsubishi ended up selling the plans and technology for the plane to Beech Aircraft, which had excess manufacturing capacity in the US. The Texas plant was liquidated. While it is clear that the direct cause of liquidation was an unexpected change in exchange rates, an additional reason were delays due to Mitsubishi's inexperience with FAA procedures.

In the 1950s the US government offered attractive long-term timber supply contracts to encourage the exploitation of Alaska's more isolated forests. The beneficiaries of these 50-year contracts were to build processing facilities. Two firms, Louisiana-Pacific and Alaska Lumber and Pulp (ALP) responded to this offer. ALP, a consortium of Japanese synthetic fiber and general trading companies, built a pulp mill in Sitka and a lumber mill in Wrangell. In 1993, ALP decided to close its pulp mill because of low pulp prices, and to convert the plant to the production of medium-density fiberboard. Under pressure from environmentalists, the United States Forest Service responded by canceling ALP's favorable 50-year timber supply contract, forcing ALP to close its two

mills. Louisiana- Pacific's contract was not affected (the company closed its pulp plant in 1997 anyhow due to the need for pollution control investments and to difficulties encountered in negotiating the extension of its timber supply contract beyond 2004). In May 2000, a federal court ruled that the US Government had no legal basis for canceling ALP's contract and awarded damages. There is some evidence here that ALP's Japanese status made it more exposed to political risk than its domestic rival.

Our analysis of our 32 cases of exit shows the rich variety of causes we had predicted earlier. While a significant number of exits (13 out of 32) can be attributed to a liability of foreignness, there are also many other reasons for exit that have little to do with it. Hence one has to be very cautious when using exits to measure the liability of foreignness.

5. Conclusions

The liability of foreignness is a crucial concept in the theory of the MNE, for it explains why, in spite of significant market transaction costs, some international interactions are not handled by MNEs. In spite of its theoretical importance, the phenomenon has been under-researched. The major approach taken by the literature has been to infer the presence of such a liability from higher exit rates.

That literature has come up with mixed results, and one of the reasons, we argued, has been that the relationship between poor profitability caused by a liability of foreignness on one hand, and exits on the other, is not as straightforward as most researchers have implicitly assumed. Our survey of the literature on exits shows that a significant number of exits are not due to poor profitability, but rather to parents restructuring their portfolios or winding down their options. Does this invalidate studies that attempt to measure by exit rates the existence and level of a liability of foreignness? To

find out, we analyzed the exits to 1998 of 32 Japanese-owned affiliates that manufactured in the United States in 1980. This is a good sample to evaluate the presence of a liability of foreignness, as liquidating a manufacturing affiliate is relatively costly, and the US market is a strategic one for Japan. Many of our affiliates were also their parent's first investment in the United States, and hence the liability of foreignness should have been high for these firms. After carefully documenting the causes of exit, we find that 13 cases out of 32 can be ascribed to a liability of foreignness. In seven cases, Japanese investors experienced difficulties with managing their American employees, in two (and possibly three) cases they seemed to have had trouble with the US government, and in another three cases they appear to have made over-optimistic market forecasts.

What these results show is that relatively inexperienced Japanese investors did incur serious difficulties in managing in the United States, difficulties which, not surprisingly, had primarily to do with the most country-specific aspects of management, i.e. that of human resources. Our findings are thus consistent with those of Mezias (2001) and with an abundant literature on the difficulties Japanese managers have had with their US employees (e.g. Yoshihara, 1991).

That Japanese firms experienced difficulties in their relationships with the US government and in their understanding of the US market is also not surprising. Marketing know-how is often tacit, and difficult to transfer across countries. Dealing with host governments is also a challenge for foreign investors because the way a country's political system is set up is a subtle reflection of its values and style. The rules of the political game are often tacit, and hence very hard for foreigners to understand.

A second conclusion of our study is that exits are due to many factors besides a liability of foreignness, and that to test the theory it is important to isolate the additional impact of the liability

over the baseline exit rate. Failure to perform the test on matched samples, or to carefully control for the factors that affect all exits, will give misleading results.

In that context, our findings must be considered with caution, since we do not have a matched sample of domestic American firms. This would have helped us better separate exits due to a liability of foreignness from those due to hazards affecting both foreign and domestic firms. Another limitation comes from the difficulty of ascertaining causes for exit from secondary sources and from interviews with protagonists. Yet, given the complexity of both the liability of foreignness and of exits, we believe that it is quite possible to misinterpret statistical results. Examining in sufficient detail a large enough sample of exits over a long period, and finding out the causes of such exits can provide an important reality check to make sure that we understand what lies behind the data.

Table 1: Exits by Japanese manufacturing affiliates from the United States

Affiliate Name	Japanese Parent(s)	Type at entry	Type of Exit	Reason(s) for Exit
Alaska Lumber and Pulp	Teijin, Toray, Mitsubishi, Marubeni, Mitsui	J-J G	L	Change in US regulations
Alpha Therapeutic	Green Cross	J A	S	Parent acquired
Alumax	Mitsui and Nippon Steel	J-J-US PA	S	Replaced by contract
Catalyst Company	Nippon Shokubai	J-US G	L	Lost its market
Ceradyne	Kyocera	J A	S	Discrimination by Pentagon
Daitom	Daiichi Seiyaku	J-US G	L	High costs due to oil price hike
Denka Chemical	Denki Kagaku Kogyo	J A	S	Labor problems
Dorchester Fabrics	Tomen	J-US PA	S	Poor performance
Everett Piano	Yamaha	J A	L	Labor problems
Feltloc	Dynic	J-G	L	Poor marketing
Firestone Vineyards	Suntory	J-US G	S	U.S. Partner buys back
Fletcher Oil and Chemicals	Mitsubishi Trading	J-US PA	S	Change in US regulations
Hitachi Consumer Products	Hitachi	J G	L	Labor problems
Honeylon	Honey Fiber and Bedding	J-US G	L	Supply problems
Key Pharmaceuticals	Mitsubishi Kasei	J-US PA	S	Mission accomplished
Kodiak Lumber Mills	Mitsui Trading	J-G	L	Change in market and US regulations
Marcrest Pacific	Marubeni	J-US PA	L	Change in market
Matsushita Industrial	Matsushita Electric	J A	L	Labor problems
Micro Power System	Seiko Epson	J-US PA	S	Labor problems
Mitsubishi Aircraft	Mitsubishi Heavy Industries	J-A	S	Change in US regulations/exchange rate
Mount Pleasant Chemicals	Sumitomo Chemical	J-US G	L	Deficient marketing
Nachi Bearing	Nachi Fujikoshi, Kanematsu Goshu, Nissho-Iwai, Shima Trading	J-J A	S	Bad location
Neptune Packing	Mitsui Trading	J A	L	High labor costs
New England Drawn Steel	Azuma Steel, Oh-Esu, Nittetsu Trading	J-J- A	S	Labor problems
Oki Electric	Oki	J G	L	Poor marketing
Olga	Wacoal	J-US PA	S	US partner buys back
Rosewood Knitting Mills	Toyobo	J-US PA	S	Change in market

Sakura Noodle	Yaohan Department Store	J G	S	Parent went bankrupt
Southern Metal Service	Kanematsu Gosho	J-US PA	L	Change in US regulations
Topri	Tokyo Print Industry	J-G	S	Customer defects
Transco Textiles	Seiren, Toyobo, Nichida Tsusho	J-J-US G	S	Change in Market
West Virginia Flat Glass	Asahi Glass	J-US PA	S	Labor/Technical problems

J = Japanese parent, US = US parent, G = greenfield, PA= partial acquisition, A= full acquisition, S= selloff, L=liquidation

Appendix: Short History of Exits

Alaska Lumber and Pulp

In the 1950s the US government offered attractive long-term timber supply contracts to encourage the exploitation of Alaska's more isolated forests. The beneficiaries of these 50-year contracts had to promise to build processing facilities in that state. One US company, Louisiana-Pacific, and a Japanese consortium, Alaska Lumber and Pulp (ALP), made up of two Japanese man-made textile manufacturers (Teijin and Toray) and of three trading companies (Marubeni, Mitsui and Mitsubishi), decided to accept the contracts and to build a pulp mill in Sitka. The pulp was shipped to Japan used by the textile firms for their own synthetic fiber production, while the trading companies sold it to Japanese paper companies. As the price of lumber increased, ALP also built a major sawmill in Wrangell.

This project became less and less popular as Alaska's oil-derived wealth led to an increased concern for its environment. In 1993, ALP decided to close its pulp mill because of low pulp prices, and to convert the plant to the production of medium-density fiberboard. Under pressure from environmentalists, the United States Forest Service responded by canceling ALP's favorable 50-year

timber supply contract, forcing the firm to close its two mills. Louisiana-Pacific's contract was not affected (the company closed its pulp plant in 1997 anyhow due to the need for pollution control investments and to difficulties encountered in negotiating the extension of its timber supply contract beyond 2004). In May 2000, a federal court ruled that the US Government had no legal basis for canceling ALP's contract and awarded damages. There is some evidence here that ALP's Japanese status made it more exposed to political risk than its domestic rival.

Alpha Therapeutic

Green Cross acquired Alpha Therapeutic in 1978. Green Cross got caught in the HIV-tainted blood scandal in Japan, in which the Japanese health ministry delayed the use of foreign AIDS blood tests, while waiting for Green Cross to develop its own. Many people died as a result and Green Cross was forced to merge with (be acquired by) Yoshitomi, thus breaking the ownership link between Alpha Therapeutic and Green Cross.

Alumax Joint Venture

The Mitsui Group found itself in 1945 without an aluminum plant. As a result, Mitsui & Co, the Group's trading arm, was at a disadvantage in an important product area. Mitsui saw its chance when AMAX was looking for an outside investor to help finance an expansion in capacity. By taking a 50% stake in Amax's aluminum business (renamed Alumax), Mitsui secured access to low cost ingot at a time where the Japanese aluminum industry use of oil based electricity made it uncompetitive. Mitsui provided a secure outlet for Alumax's aluminum, and Alumax a secure source of supply for Mitsui. By 1986 the market for aluminum had considerably developed, and Mitsui sold its Alumax share to Amax and replaced its investment by a series of long-term contracts with Amax. There is some indication that Mitsui's divestment did not involve hard feeling since two years later

Mitsui was back into partnership with Amax after buying Pechiney's share in the Intalco and Eastalco smelters.

The Catalyst Company

The Catalyst Company was a joint venture set up in 1973 by American Cyanamid and Nippon Shokubai in response to new U.S. Environmental Protection Agency regulations for car exhausts. Both firms were already selling catalytic converters when General Motors, a major customer, suggested that it would favor a joint venture between the two competitors as one was strong in pellet substrate formation and the other in noble metal deposition. Each parent held a 50% share in the venture which was active until 1982. In 1982 automobile manufacturers switched to monolithic catalysts and the joint venture went inactive rather than to switch to a technology which did not fit the original rationale of the joint venture and for which the partners had no special competence (Tyejbee 1988). The joint venture was officially liquidated in 1987.

Ceradyne

Ceradyne, a firm making custom ceramic packages, was acquired by Kyocera in 1978. According to Mr. Moskowitz, Ceradyne's co-founder, the acquisition was not synergistic, because the company made custom parts while Kyocera mass-produced. Ceradyne was sold back to its management in 1983. The sale was given added impetus by Ceradyne's attempt to win large military contracts. As long as the firm was selling only small quantities to the military, its affiliation with Kyocera was not an obstacle. But the Pentagon frowned on handing out large amount of classified work to a non-American company, so Kyocera agreed to spin off Ceradyne to Moskowitz for 2.3 million plus a royalty equal to 3% of sales over the next 10 years.

Daitom

The company was set up in 1979 as a greenfield joint venture between Daiichi Seiyaku and Thomson-Hayward Chemical to manufacture vitamins for animals. Oil price hikes caused production costs to skyrocket and in 1984 the joint venture was dissolved.

Denka Chemical

Denka Chemical was established in 1977 when Denki Kagaku Kogyo bought a plant in Houston to manufacture synthetic rubber in response to a U.S. lawsuit against dumping. The company could not adjust to the vertical division of labor practiced at the plant and operated in the red. After an accident at the plant, the parent sold the firm in 1984 to its American managers.

Dorchester Fabrics

In 1980 the Japanese general trading firm Tomen took an 80 percent share in Dorchester Fabrics, a company owned by an American entrepreneur. Tomen came later to the conclusion that Dorchester did not keep up with market trends, so it sold its stake in 1985 to a Korean firm.

Everett Piano

In 1973 Yamaha acquired Everett Piano, a medium-caliber piano maker located in South Haven, Michigan. Immediately after the purchase, Everett's employees went on a 3-month long strike. The strike turned ugly, with shots reportedly fired at the house of the American president and threatening calls made to those of Japanese expatriate managers. Yamaha kept the Everett line of pianos and added its own Yamaha line. In 1967 it closed the plant. The official reason was "declining piano sales." However, labor problems seem to have played a major role, since Yamaha did not subsequently reduce its output. Instead it moved the manufacture of its Yamaha line of pianos to its Georgia organ manufacturing plant, and contracted with Baldwin to continue the production of the Everett piano line. This suggests that demand for pianos may not have been the

main problem.

Feltloc

Feltloc was set up by Dynic in 1974 to manufacture all-cotton nonwoven cloth for the graphic arts, hospital, and industrial markets. The subsidiary never seems to have sold enough cloth to make a profit. After being continuously in the red, it was liquidated in 1982.

Firestone Vineyards

In the early 1970's, younger members of the Firestone family decided to start a vineyard on family land in the Santa Ynes valley, an area not previously used for wine-quality grapes, but soon found out they could not get financing. The family had good personal relations with the president of Suntory, a Japanese spirits company, so they asked Suntory for financing. Suntory set up a joint venture with the Firestone family to carry out the project. The vineyard prospered, helping to establish this valley as a prime-growing region. The Firestones had put into the joint venture contract an option to buy back the 31% share that Suntory owned, and they exercised it in 1994, without apparent resistance from Suntory.

Fletcher Oil and Refining

In 1979 Mitsubishi Trading acquired a 20% stake in Fletcher Oil and Refining, a small Carson, California, oil refinery and obtained the right to market 70% of its output. But the worsening economics of oil refining in California persuaded Mitsubishi to sell its stake in 1987.

Hitachi Consumer Products

The plant was initially set up by Hitachi in Compton/Anaheim to assemble TV sets. It was non-unionized, and the labor force was extremely diverse ethnically and linguistically, an attribute that Japanese managers considered an impediment to management. According to Kenney (1999), the

plant was managed along US lines, with no effort to incorporate Japanese labor management techniques. The plant's high cost and low productivity persuaded Hitachi to close it and move its production of projection TVs to its Tijuana maquiladora and that of videocassette recorders to Malaysia.

Honeylon

Honeylon was set up in 1974 by Honey Fiber and Bedding (now Honeylon) and National Novelty Brush, a US company, to manufacture non-woven cotton fabrics. The joint venture was liquidated in 1992 because it could not find raw materials at competitive prices in the US.

Key Pharmaceuticals

In 1979, Mitsubishi Kasei bought a 10% stake in Key Pharmaceuticals to learn about the American market. Mitsubishi argues that by 1986 they had achieved their objectives and this was the reason they sold back their share (at a \$20 million profit) when Key Pharmaceuticals was acquired by Schering-Plough.

Kodiak Lumber Mills

Kodiak Lumber Mills was set up in 1971 by Mitsui Trading in Anchorage, Alaska, to cut logs and export semi-finished lumber to Japan. After running up losses of \$68m million, Kodiak Lumber filed for bankruptcy in 1984. Swollen infrastructure costs, low housing starts in Japan, and the increased used of recycled paper by Japanese paper mills were blamed for this outcome.

Marcrest Pacific

Marcrest Pacific was established in 1970 as a greenfield joint venture between Marubeni and a US steel firm to manufacture welded steel beams in Carson, California. The plant was closed in 1989 when the steel service center that shared the same location was relocated to Riverside.

Marcrest's equipment was too old and the future prospects for its products were apparently not sufficiently encouraging to warrant the continuation of operations.

Matsushita Electric

The tremendous success of Japanese exports of televisions to the United States led to significant trade frictions, which in turn persuaded major Japanese TV set assemblers to start manufacturing in the United States. In 1974 Matsushita bought the Franklin Park, Illinois, TV assembly plant of Motorola's Quasar television unit. The plant was not unionized, but was operated along "Fordist" lines (Kenney 1999). Quality was dismally low. It improved substantially when Matsushita brought in new equipment and higher quality parts from Japan. But Matsushita did not succeed in introducing Japanese "lean management" practices such as broad job descriptions, worker job rotation, and quality circles (Abo et al, 1994). The company took advantage of the passage of NAFTA in 1995 to move Franklin Park's TV assembly operations to Mexico. The plant was totally closed in 1997 when its remaining production of microwave ovens was shut down and moved to Matsushita's Appliance Corp. in Danville, Kentucky.

Micro Power Systems

Seiko put funds in 1972 into Micro Power Systems, a maker of personal computers, terminal printers, and liquid crystal displays. It used the firm as a source of technology and as a training ground for its engineers. Micro Power Systems never seemed to have established a strong marketing position because of Seiko's halfhearted approach to marketing and manufacturing. Micro Power's management decided to take the firm over in 1992 in a leveraged buy-out because they felt that Seiko did not understand the business.

Mitsubishi Aircraft

Mitsubishi Heavy Industry entered the United States in 1967 to sell its MU-2 business jet. Part of the plane was to be built in Japan, and part at a manufacturing plant Mitsubishi bought in Texas (Kujawa, 1983). As the MU2 was going through FAA certification, a door fell off a DC10 at the Paris Air Show, leading to a tightening of regulations. This forced Mitsubishi to redesign the plane and delayed its launch. In the meantime, the yen had appreciated so much that making part of the plane in Japan was no longer competitive. Mitsubishi ended up selling the plans and technology for the MU2 to Beech Aircraft, which had excess manufacturing capacity in the US. The Texas plant was liquidated. While it is clear that the direct cause of liquidation was an unexpected change in exchange rates, an additional reason were delays due to Mitsubishi's inexperience with FAA procedures.

Mount Pleasant Chemical

In 1975, Sumitomo Chemicals entered the United States with the hope to sell its Sumithion brand of forest insecticide which was selling well in Japan. A joint venture, Mount Pleasant Chemical, was established with Stauffer Chemical, an American firm. Sumitomo had, however, apparently underestimated the competitive strength of similar brands of organic phosphate insecticides sold by American Cyanamid and Union Carbide. The joint venture never made money and was liquidated in 1984.

Nachi Bearing

In 1974, Nachi Fujikoshi, a bearing manufacturer, together with the Japanese general trading firms of Kanematsu-Gosho, Nissho-Iwai, and Shima Trading, jointly purchased a bearing plant in South Portland, Maine. In 1987 the plant was closed down when Nachi moved into a new facility in Greenwood, Indiana, closer to Japanese car assembly plants.

Neptune Packing

Mitsui Trading acquired this Mayaguez, Puerto Rico, tuna packing plant in 1973. Tuna packing is a very labor-intensive activity and at that time low wages made Puerto Rico attractive. The rise in labor costs in the 80's and 90's made such plants uncompetitive and of the five tuna packing plants established in Puerto Rico, four had closed by the early 90's, including Neptune Packing which was closed in 1991 and liquidated in 1993.

New England Drawn Steel

New England Drawn Steel, a plant making cold drawn steel bars, was acquired in 1973 by a consortium made up of Azuma Steel, Oshima Seisen, and Nippon Steel Trading. The Japanese firm's competitive strategy for this rather standard product was based on high quality and low cost. New England Drawn Steel was unionized prior to its acquisition by the Japanese, and the new Japanese owners made very few changes to its labor relations (Kujawa, 1985). According to its former president, the business was sold to a Canadian firm in 1981 because of labor problems.

Oki Electric

Oki Electric set up in 1973 a greenfield wholly-owned plant in Oakland Park, Florida to manufacture and sell private branch exchanges (PBX) to US customers. But sales never took off and the plant was closed in the mid-1980s.

Olga Corporation

In 1978 Wacoal, a women's underwear manufacturer, took a 29% stake in Olga, the fifth ranked US women's underwear manufacturer. One of the motivating factors for securing a manufacturing base in the US was a high US tariff. The agreement was that the remaining 71% of Olga would be transferred to Wacoal in seven years "if business relations between them had matured

sufficiently”. However, in the Fall of 1982 Olga asked Wacoal to sell back its whole stake in Olga because of a significant improvement in business performance. The proposed buyback was completed in February 1983. After the re-purchase of Wacoal’s share, Olga sold itself to Warnaco, who kept the two founders, Jan and Olga Ertesek, as Chairman of the Board and Vice President Design. Wacoal, which had been in discussion with Teenform, another US lingerie manufacturer, finally acquired it in 1983. Two years later Wacoal built its own plant in in Puerto Rico.

Rosewood Knitting Mills

Toyobo, a textile-spinning firm, bought 40% of Rosewood Knitting Mills in 1973. Rosewood fabrics was making knitwear which was dyed by Transco textiles. But demand for synthetic knitwear fell, and, after an attempt to switch to fabrics, both Rosewood and Transco were sold to Guilford Mills, a US firm, in 1985.

Sakura Noodle

The plant was set up by Yoahan department store, as part of its many diversifications. The firm went bankrupt on September 18, 1997 and the subsidiary was sold to Shoachi Suzuki.

Southern Metal Service

Kanematsu Goshu, a Japanese general trading company, took a 20% stake in 1973 in this Gulfport, Mississippi, steel service center that was set up for hot bands and related products using hot-rolled steel imported from Mexico, Brazil, South Africa and other sources. In 1986 the US imposed so-called “voluntary restraint agreements” on these countries, thus cutting Southern Metal Service’s source of steel, and Kanematsu decided to close its (by then fully-owned) subsidiary. It seems that Southern Metal’s supply sources and location made it particularly vulnerable to the imposition of these voluntary restraint agreements. Other Japanese steel service centers seem to have

been better able to replace imported steel with US steel or with that produced by Japanese-US joint ventures in the U.S.

Topri

Topri was set up in Peachtree City (Georgia) in 1979 by Tokyo Print Industry as a semi-captive supplier of printed wiring board to General Motors's Delco Electronics Division. Although the plant was established with its encouragement, Delco later opened its own facility, drastically reducing Topri's volume. The plant was sold in 1982 to Kollmorgen Corp.

Transco Textile Industries

In 1975 Toyobo, a Japanese spinning firm, set up a greenfield joint venture with Rosewood Knitting Mills, an American firm it partly owned, to print, dye, and finish synthetic knitwear produced by Rosewood. But the business of Transco fell along with US demand for synthetic knitwear. After an attempt to switch to fabrics, both Rosewood and Transco were sold to Guilford Mills, a US firm, in 1985.

West Virginia Flat Glass

In 1979 Asahi Glass Company purchased from Hordis Glass Co. 80% of West Virginia Flat Glass in Clarksburg, West Virginia, a plant making thick glass sheets which had just been shut down by its owner. Asahi's attempt to convert the plant's production lines from thick to thin glass was unsuccessful. The plant was shut down in 1981 for repairs and refurbishment, reopened, but was finally sold in 1986 due to poor productivity.

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Endnotes

¹ In some cases, however, foreign investors may face positive discrimination from consumers, who have more confidence on imported than on locally made products.

² As the authors write, establishing a trading room “requires a Reuter monitor, a couple of phone lines, and some back-office support to confirm and account for deals. All that a trading room needs to do to become a market maker is to establish credit lines with a reasonably larger number of banks, start the practice of quoting bid and offer prices with reasonably narrow spreads, and publicize the fact that it is ready to receive incoming requests for bid-offer quotes both by word of mouth and by requesting an entry in an established directory of market makers such as the Foreign exchange and Bullion dealers directory published by Hambros bank in London” (p. 443).

³ This was the case whether cultural distance was measured by the Kogut and Singh index (1988) or by Ronen and Shenkar’s (1985) cultural clusters.

⁴ For example, selloffs make up 67% of all dissolved links in our sample, vs. 64% for our population.