



**DIVERSIFIED EXPANSION AND DIFFERENT BUSINESS MODELS
IN THE JAPANESE TEXTILE INDUSTRY**

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ABSTRACT

Diversification into non-textile activities became the major instrument for Japan's large textile enterprises which confronted the maturing state of their original businesses. Diversification strategies that companies adopted exhibited the different directions in their basic investment patterns. The present research confirms that dissimilar technological resource and capability endowments have decisive impacts on the contrasting long-term growth patterns of the companies. The timing of new market entry is also endogenous to the firm resources and capabilities. While firms adapt to the changing environments, diversification can thus be a very much path-dependent process.

Keywords: textile industry, Japan, technological resources and capabilities, diversification strategy

1. Introduction

Diversification into non-textile product markets has been the primary strategy for reorganization adapted by the large enterprises in the Japanese textile industry.¹ This was because restructuring within textile businesses has not yielded the long-term solution to bring the satisfactory financial outcomes. As a result, the average textile sales of the largest firms in the Japanese textile industry have declined from an average of ninety percent in 1970 to around only forty percent in the present day.

Given the significant role that diversification strategies have played for the firms' survival in the strenuous business environment, this paper aims to shed light

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on the basic directions of the diversification strategies in the Japanese textile industry. It thus explores the diversification patterns of the leading companies' and in particular analyzes the effects of their dissimilar technological resources and capabilities on the different paths of diversification.

For the purposes of this analysis, the paper uses internal resource-base theories of the firm (Penrose, 1959; Nelson and Winter, 1982), which suggests that firms shall exploit their resources and capabilities to diversify into new products. The nature of those resources and capabilities thus provides the basis for companies' direction of diversification, as has also been advocated by the evolutionary economic theory (Nelson and Winter, 1982; Dosi et al,