THE STRATEGIC OBJECTIVES OF JAPANESE COMPANIES ENGAGED IN INTERNATIONAL MARKET DEVELOPMENT

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Introduction

A multinational company is one whose management decisions are based on a "genuinely global perspective." The term "global" has been very widely used in Japan in recent years, but far from being a quote from a recent issue of a Japanese management journal, this phrase is actually taken from *Business Week*'s first special report on multinational companies, published 24 years ago. As the continuation of the definition from this report says, a multinational company is in essence one in which, "management makes fundamental decisions on marketing, production, and research in terms of the alternatives that are available to it anywhere in the world"(1). Since the early 1970s many Japanese companies have trodden the path to multinationalization. The problems that face the ones which have done so recently are however of a different nature to those that confronted the first companies to do so. Factors such as the rise in the exchange value of the yen and friction with Japan's trading partners have changed the environment for companies attempting to enter overseas markets. These changes, increases in the size and 'degree of globality' (the extent of their internationalization) of the companies involved, and changes in the industries they are engaged in, have resulted in a different set of strategical considerations. In this paper we examine the problems facing the companies with the greatest degree of globality.

1. Japan's Leading Multinational Corporations

Which are the companies with the greatest degree of globality? In June 1987 a Japanese newspaper, the *Nikkei Sangyo Shinbun*, published the results of a survey carried out in March 1987; 100 Japanese companies and 60 overseas companies operating in Japan were asked which Japanese companies were the most international. Also calculated was the proportion of executives with overseas experience, the proportion of Japanese employees working overseas, the proportion of non-Japanese employees, the length of time the company had been operations overseas, and their overseas production strongpoints(2). The ten highest-rated Japanese companies according to these indicators were Sony, Honda, Matsushita, YKK, NEC, Canon, Ajinomoto, Toyota, Yamaha Motors, and Konishiroku. It must be pointed out, however, that this survey concentrated on personnel. If, for example, the emphasis were on finance or research and development the results might be different.

To look at them from the point of view of international market development as we do here, we will also have to take into consideration "whether they are large manufacturing companies with considerable experience in market development within Japan", "whether they have a large amount of exports extending over a long time" and "whether they have experience of running businesses in several countries simultaneously(3)." Some 15 to 20 companies, mainly in the electrical, automobile and machinery industries could be said to have such experience, including all the ten companies mentioned above except Konishiroku. We would like here to attempt to identify the common elements in the international marketing strategies of these companies. In our opinion they can be summed up by the following three points:

(1) The sales network for their overseas markets were established in advance. This being a prerequisite for completion of sale, it was essential to set up distribution channels (mainly their own), which then became the base for continued market research, and the commencement of product promotion.

(2) They not only produced products suitable for their overseas markets initially, but also saw to it that these products were continually improved. Initial entry into overseas markets was seldom the result of market research followed by a decision on the target market and then planning of the products to be exported. What F. R. Root describes as "some success in casual exporting"(4) was much more common. What did happen afterwards, however, was that efforts were made to cater for local demand patterns, so that the initial success was converted into a definite strategy.

(3) They employed a flexible combination of price competition and non-price competition. The USA became the most popular area for sales based on local production. Market development there consisted of (a) products based on western technology and sold on the same markets as their western counterparts (in electronics, precision instruments etc.) (b) products based on western technology but used to create new markets (pianos, motor cycles etc.) (c) products based on native Japanese technology and used to create new markets (monosodium glutamate, soy sauce). Initial entry, particularly in the case of (a) and (b), centred upon price competition, but later the strategical emphasis changed to non-price competition in the form of improvement, refinement and an increased variety of products, although they always remained conscious of price competition. This "strategic flexibity"(5) was sustained by the fierce competition among Japanese companies and their conscious decision to treat profitability as a long rather than a short term objective.

Thus, a process which began as sales activities for exports has today reached the stage where Japanese parent companies and their overseas subsidiaries sell locally-manufactured products and products imported from Japan or third countries (countries other than Japan and the host country) mainly on the markets of the developed countries. What are the strategic considerations for these companies?

In section 2–4 we concentrate on developments within the companies themselves, then in sections 5–7 we turn to their response to external factors.

2. Increased Perception of the Efficient Utilization of the Company Resources necessary for Internationalization

These companies' most important resource was their personnel, and their training for internationalization was therefore critical. It was the rationalization of the placing and coordination of these personnel that produced the ability to adapt rapidly to a changing environment. It was essential to establish a system which would ensure that experienced and skilled personnel could be recruited and employed meaningfully. With the expansion in overseas activities, rotation of personnel (within Japan, within the overseas network, and between the two), improvements in management organization and operating procedures, and the testing of Japanese management methods became major objectives. Here we will discuss these three areas at some length:

(1) Adjustments in the long-term requirements of the company and those of individual employees.

An area not entirely clear even in Japan's leading multinational companies is, from the employees' point of view, whether the personal and family difficulties resulting from overseas service are offset by possible benefits in the form of improved promotion prospects and a deeper understanding of their work, while for the company there is still uncertainty over the placing of employees overseas and after they return to Japan. They are attempting to introduce systems whereby they are sent overseas for an average of three to five years and there is a position and a rehabilitation programme planned for them on their return.

(2) Control of overseas operations: overseas business divisions and product divisions.

In most Japanese companies control of overseas production and sales rests with a matrix formed by product divisions and overseas business divisions, though in some cases the product division will control all domestic and overseas activities for a particular product. Because the overseas business division is a progression from the export division (in some cases a separate company has been formed rather than a new division), its activities revolve around the business of sales. Where factories are set up, however, a product division will be in charge, and this may lead to problems over control of marketing activities for the country concerned. The organization of the roles of different divisions may be the reponsibility of top-level management in the parent company, it may be that the overseas division exercises a degree of overall control; the system is always under review and subject to change. Where the products involved are comparatively uniform and high-level technical support is not required, the overseas division is usually in charge of dealing with clients. Conversely, if the products have a considerable range of technical diversity and a considerable amount has been invested in overseas production, the product division concerned may have its own overseas department. With the latter system, however, loss of overall coordination is always a danger.

(3) Increasing numbers of local employees and Japanese-style management.

In the past, entry into overseas markets involved comparatively small numbers of local employees, slightly more than a thousand being the most involved in a single enterprise, with a few hundred or less than a hundred being more usual. The overseas expansion of automobile and electrical companies has seen this rise to somewhere between two and five thousand. Japanese companies had tried to guarantee stable employment to locally-recruited employees (a modified extension of the lifetime employment system in Japan), but such numbers meant that there was a limit to their ability to do this. The *Nihon Keizai Shinbun* (Japan Economic Journal) reported on April 26th 1987 that Matsushita had made 250 workersredundant (80 voluntary) at their Chicago colour TV factory in February. This has of course meant that retaining the loyalty of locally-employed will become more difficult. As Sadayuki Sato says, "This will now be a big test for Japanese-style management and the ability to instil its principles into local managers who have become largely independent."(6)

It is the effective accumulation and utilization of a company's resources that give it the ability to respond rapidly to a changing environment, and as we have said above, its most important resource is people.

3. Diversification's New Dimensions: targets, content, methods

Initially it was possible to chart the progress of Japanese companies' overseas expansion along two separate dimensions, diversification and internationalization. More recently, however, the advance of diversification has often brought about internationalization and vice versa, so that diversification itself has become more diverse.

(1) Diversification of business on foreign markets (the targets) as an extension of a market vector (Ansoff's diversification strategy model, vertical axis).

As long as entry into overseas markets was the result of planned geographical diversification of the main business in Japan, the content of diversification had substantially meant the expansion of production. Recent years, have seen overseas subsidiaries become involved in businesses in which the parent company in Japan is not, or at least which are not so important it. In 1985, for example, YKK went into plantation management in Brazil, and in 1986 Ajinomoto and Orsan (France) started a joint venture in fertilizer additives in the USA. Shiseido's way of countering a mature market was to diversify into the boutique business, buying out a local company. Takanori Takeuchi, one of their directors, described their global diversification policy as the diversification of their international business.

(2) Internationalization seen in new product development (the contents of diversification) as an extension of the technological vector (Ansoff's model, horizontal axis).

As we have said above, Japanese companies' international development initially relied upon the introduction of technology from foreign companies. A more recent trend is internationalization based on new product development as a result of joint technology development or cross-licensing. Examples of this are IBM and Hitachi's cross-licensing contract in 1986 for the use of each others' computer software, and Hitachi and General Motors' joint technology development (also 1986) involving automobile components and electronics. Discussing the reasons for these alliances Miles says, "One is that technology is changing and blending more rapidly than ever, with the need for very large investments, even while competitive lead times are shortening and the implications for markets are very unclear."(7) It is no coincidence that many companies in high-tech industries are involved in these developments.

(3) External diversification (method) and overseas market entry.

Diversification can be divided into internal diversification, which occurs when a company develops its own technology, and external diversification, when other companies are taken over. The former method used to be more common in Japan, whereas both were used by American companies. The fourth wave of takeovers and mergers which took place in the USA in the early 1980s consisted mainly of horizontal and vertical integration, rather than movement into different industries, so that in terms of content it was expansion rather than diversification. From a strategic viewpoint these takeovers and mergers represented a reorganisation, with the strengthening of certain divisions and the sale of those no longer deemed necessary, regardless of whether they were in the black or red. For the Japanese companies involved these transactions created a number of problems. Initial entry had usually involved the construction of new offices and factories, but statistics show that since September 1985 "although the proportion of mergers has hardly changed, the proportion of takeovers has almost doubled."(8) This trend has been particularly noticeable in the high-tech materials industries. Companies in new materials and semiconductors have gained entry by taking over companies in the finance and service sectors, and an acceleration in the pace of internationalization has ensued. Entries into new areas of business through takeovers and mergers within Japan are also on the increase.

It appears that the developments outlined in Ansoff's model are taking place in all countries. This is occuring in conjuction with indivual companies' development of a global image, which is discussed in the next section.

4. Adaptation to Different Market's Characteristics and Individual Companies' Global Character

It is of course essential that companies tailor their market development activities to match the conditions prevailing in the countries they operate in. Merchandising for Europe nd Latin America has much in common; they are in theory no products which could be said to be orientated towards one rather the other. It is, however, well known that Ajinomoto have had to simplify the packaging of certain goods in order to reduce the price or they would not be able to sell them in Latin America. Differences in the natural environment and the political, legal and economic situation in different countries mean that the characteristics of the consumer market (purchasing power, usage customs, objectives, tastes) and the dealers market (distribution networks, the behaviour of salesmen, negotiating conventions) is different in each country. Market development activities for a particular country are formed as a result of adaptation to these characteristics.

However it can also be said that these companies have their own special 'character' which permeates their activities throughout their global networks. This phenomenon has two facets. The first is the common elements seen in companies' images and management methods. Matsushita Electric have not attempted to introduce Japanese working practices (eg. morning pep-talk and exercises) lock stock and barrel into all their overseas businesses or to transplant the guiding concepts of the parent company. However the companies within their overseas network are concious of the parent company's objectives for overseas business, which are as follows: (a) to operate businesses which will be welcomed locally (b) to promote enterprises which fit in with the government policy of the host country (c) to transfer technology to the host country (d) to ensure the quality and functionality of goods produced, and keep costs low, so that they are competitive on a global basis (e) to make them profitable, and (f) to develop the potential of their overseas employees. The knowledge of these objectives depends on the activities of Japanese employees sent overseas, and it is their efforts that produce the diffusion of Matsushita's 'character' through the global network. In the past, companies' individual reputations overseas were the result of brand identification with certain products. The increase in the unit size of businesses has brought about this greater uniformity within global networks. Of the 4,400-strong workforce at Honda USA's Ohio factory, 160 (3.6%) are Japanese. It was reported in the *Nikkei Sangyo Shinbun* (August 11th 1987) that they were thinking of reducing this to around 3% but that before they could achieve this they must first instil Honda's company and management policies into the local workforce.

As we explain later, the increased interdependence of businesses on a global level has also contributed to greater uniformity. This leads us to the second facet of this phenomenon, which is the production of goods acceptable all over the world. Theodore Levitt pointed out that "..in the process of the world's being shaped into the kind of homogenizing commonality I have been talking about something else clearly happens, namely, the expansion of modern markets into cost-reducing global proportions."[9] He does not of course by this mean to rule out adaptation to conditions prevailing in different countries. All possible ways of lowering costs should be attempted, unless they would disenable the sale of a product to a particular country.

From the above discussion then we can say that Japanese companies have not merely made the necessary daptations for market development, but have also sought to stamp their own individual chaaracter on their global operations.

5. The Shift in Emphasis from Turnover to Profitability

A comparison of Japanese and American marketing strategies in the past reveals that in Japan turnover was the more important consideration, while in the USA proffitability was considered more important. The question in Japan was how much (of a proposed new product) would be sold in x years time; in the USA it was how many years it would take before it was making a profit. The strategical thinking in Japan was that a reduction in profitability could be covered by an increase in turnover. In recent years, however, there has been a change, with certain companies beginning to place more emphasis on the unit profitability of their products. As we saw at the beginning of this paper, the companies that have succeeded on overseas markets graduated from introducing foreign technology to an internal technological revolution and the achievement of product differentiation. They did this by entering new fields of business and internationalizing their research and development system, progressing from simple product development to applied research, resulting in production technology on a par with the best in the world. Yasuhiko Ikeda, the managing director of Ajinomoto said, "In the USA profit margin is all-important. That's why they have higher profits, and are able to develop new markets, based on new technology." As he intimated, Japanese companies' efforts to develop new technology had been slowed down by their own strategy. What was required was a strategy based on maximizing the profit for each product. This was reflected in an article in the *Nikkei Sangyo Shinbun* of Jan. 1st – 21st 1987 which said that Japanese company technological development ought to stem from (a) internationalization of research and development systems (b) emphasis on basic research and (c) ventures in new fields of business. The opinion expressed in 'White Paper on Companies in 1985' on methods of technological development was that "methods which utilize external resources, internal ventures or delegated/joint research projects with a reduction in the importance of cross-licensing" were considered important, as was "internationalization leading to technological development involving utilization of overseas resources–universities, research institutes and companies"(10), such as would occur with Section 3.

These new trends have meant that Japanese companies have become one of the leaders in international market development through their success at product development. It is widely known that after the second world war when American companies came to dominate world markets as a result of their technological achievements (they are of course still one of the leaders), Japanese companies developed products based on this technology, and through their sales methods and price-competitiveness, established themselves as market "followers". With Japanese companies using strategies similar to their American counterparts, and the increased emphasis on lower costs mentioned in the previous section, we have seen a trend towards increased uniformity in world market strategies.

Japanese companies shift in emphasis from turnover to profitability is also indicative of their graduation from market follower to leader and it could be said their competition with Americn companies has led to changes in the nature of the activities of both.

6. The Longterm Approach to Increased Local Control

In the early days of overseas entry the main problem involved in setting up local factories and offices was the regulations in the developing countries governing the proportion of investment by foreign companies (it had to be 49% or less), the number of foreign employees, and how much had to be produced locally. This problem remains and is still formidable, but even more important today in both the developed and developing countries is the question of how to use to the full the capital, personnel, raw materials and components from the host country.

(1) Capital from the host country (as opposed to the capital from Japan mentioned above, which, incidentally, we believe the parent will continue to invest as long as it is allowed to)

The accumulation and distribution of capital in the host country and third countries can make possible the lowering of costs and the creation of excess operating capital. The decisions on the strategy for achieving this tend to be taken by the parent company; the *Nikkei Sangyo Shinbun* (June 8th 1987) said that, "The control tower for the financial strategy of the whole group is the top-level management of the parent company; they take direct charge of financing." For example, Sony Overseas in Switzerland were put in charge of and bore the exchange rate risks for all Sony's European subsidiaries, so that they could concentrate on sales and not have to worry about exchange rate fluctuations. Within some countries of course local control of financing is progressing, as when Honda established Honda North America with overall control of the group's companies there in March 1987.

(2) Recruitment, training and assignment of local personnel.

Because of limits on the number of Japanese personnel, the problem is not so much how to replace them, as how to retain able local staff at all levels; Japanese companies have increasingly come to rely on higher-level local staff for sales and marketing. It is not enough simply to recruit able personnel. They must then be assigned appropriate posts, and to this end reforms of the administrative and personnel systems are take place regularly. The *Nikkei Sangyo Shinbun* (July 21st 1987) reported that "Fujitsu Korea Ltd., who regularly recruit local university graduates, have reduced the number of Japanese staff there from eleven to five during the past two years, transferring authority to local staff and strengthening their feeling of self-ownership."

(3) Raw materials and components.

The acquisition and utilization of the things produced in a host country needs careful consideration of the overall situation involving companies within and without the group, in Japan and third countries. Let us, for example, look at the dependence on locally-produced raw materials of some 100-plus Japanese companies operating in South Korea, Indonesia and Malaysia. It had reached 57.1% in South Korea in 1985, an increase of 11.1% over 1980, and bout 30% in Indonesia and Malaysia, an increase of 14–15%. The amount obtained locally by over 80% of Japanese company groups and their subsidiaries/partners worldwide has increased over the past five years, and for half of them the amount they obtain from Japan has decreased. The amount obtained from third countries has increased for over 40% of them, remained stable for a similar proportion, and decreased for about 10%. Research indicates that "53 out of 73 companies operating in the three countries mentioned above intend to increase their orders to local dealers. Some said they were doing so only to satisfy government regulations but a greater proportion said that it was the 'rising yen' pushing up the cost of components from Japan that was making them look to strengthen their ties with local suppliers. Some companies even stated that increased local control was an integral part of their policy."(11) Thus, provided that quality has reached an acceptable level and costs can be controlled, Japanese companies will actively promote local control, as it gives them a comparative advantage in the acquisition of materials. Finally it should be remembered that the developments described above go hand in hand with the improvements in technological levels and the quality of labour not only in the developed countries but also in developing countries, particularly the 'NICs' (newly industrialized countries).

This question is inextricably linked with the increase in trading within company groups (discussed in the next section) and the progress of diversification. Companies seek lower costs through what the Japan Development Bank describes as "the provision of production strongpoints where consumption is located". These new conditions will bring about changes in the logistics of international business (in the acquisition of mterials, production and sales in particular host countries, through increased economies of scale.

7. The Development of International Division of Labour between 'Related' Companies

With the rise in the exchange rate of the yen in recent years, international division of labour within Japanese company groups (between the parent company and overseas subsidiaries and between the subsidiries themselves) has increased. the strategic use of production strongpoints in NICs and in-bond processing regions (eg. Maquiladora in Mexico) has been of prticular interest. At present international division of labour among Japanese company groups exists: (a) between Japanese parent companies and their subsidiaries (especially in Asia) (b) between Japanese company subsidiaries in Latin and North America and (c) between subsidiaries in Europe and North America. It seems likely that such international expansion will continue to gain momentum. However certain companies also engage in a different type of international division of labour, with host country or third country companies outside the group (capital investment not being involved), joint ventures with no actual say in management, or companies with capital invested in the group. We will refer to this as *Kanren Kigyokan Kokusai Bungyo Taisei* (international division of labour between 'related' companies). The type of business it leads to is characterized by subcontracting of production or external acquisition of components/intermediate products to supplement or substitute for finished products; division of labour tends to be either by product or by process. Division of labour by product occurs when the production of certain product lines are subcontracted to other companies (regardless of whether or not it is original equipment manufacturing). *Kanren Kigyokan Kokusai Bungyo Taisei* by product occurs when the complete range of production is subcontracted to an amalgamated company or a company with which a technical cooperation agreement has been made,. or when a contract to that effect is signed with a former supplier. Widely-known examples are the subcontracting of NEC's multiple conveyor device to Permas NEC, Mitsubishi Motor Corporation's small car, 'Precis' to Hyundai Motors, and Toshiba's small refrigerator to Samsung Electronics.

Next we will look at *Kanren Kigyokan Kokusai Bungyo Taisei* by process, which can be subdivided into two types:

(1) Where the Japanese company provides some components and subcontracts produc tion. This can involve sending some components to a company (including joint venture) in the host country which will add locally-produced products and produce the finished article, or entrusting only the assembly of the various components to the company involved. Examples are Yue Loong's involvement in the production of Nissan's 1800cc 'X101', Tongwon Electric's in the production of NEC's facsimile and Anam Industries' in Seiko Epson's IC assembly.

(2) Where all components are obtained from within the host country. They are purchased in the main not on the open market, but through some arrangement whereby the price is fixed. If the parent company is in control components are purchased either indirectly, from the local manufacturers under the umbrella of joint ventures, companies investing in the group and the local office set up to obtain them, or directly, from companies with which technological cooperation or business agreements have been reached. Examples of local subsidiaries being in charge of the purchase of components are Toyota Co-operation Club in Thailand (who were able to achieve improvements in the organization of the companies outside the group they dealt with as a result of strengthening their ties with them), and Honda North America's investment in two affiliated component manufacturers which formed the basis for their continued purchases from them.

The developments discussed above promoted the expansion and diversification of intra-firm international trade within company groups, and led to far-reaching changes in sourcing strategy and strategies for sales to third countries. The selection of appropriate international alliances, whether for technological development, marketing or whatever, is today a matter of urgency for Japanese companies. These international alliances are of course what M.E. Porter was referring to when he said, "coalitions are becoming more strategic, through linking major competitors together to compete world-wide."(12)

In Conclusion

The situation facing Japanese companies operating overseas has changed dramatically due to factors such as the rise in the value of the yen, friction with other countries over trade and investment and 'hollowization' (domestic problems such as reduced employment opportunities, and less advanced production technology as a result of overseas expansion). Today more than ever before it is essential that they fully comprehend both their target markets and the global developments discussed above, and that they respond flexibly to them. From the point of view of international market development we have moved from an era when consumers chose the product to one in which they choose the company, and the leading companies will have to adapt their strategies accordingly. Economic and technological progress and increased competition between the multinational companies of the major capitalist countries has resulted from the expansion and diversification of intra-firm international trade and the uneven development of modern capitalism. Japanese companies' attempts to achieve their strategic objectives and the entry into the arena of certain of the developing countries will surely lead to a further reorganization of the world industrial scene.

Notes

(1) *Business Week*, April 20th, 1963, p.63.

(2) *Nikkei Sangyo Shinbun*, June 18th, 1987.

(3) Shiro Takeda, *Nihon Kigyo no Kokusai Maketingu* (International Marketing of Japanese Multinationals), Dohbunkan, 1986, p.60.

(4) Franklin R. Root, *Entry Strategies for Foreign Markets: from Domestic to International Business*, Amacom, 1977, p.8.

(5) Philip Kotler and Liam Fahey, The World's Champion Marketers: The Japanese, in *Journal of Business Strategy*, 1982 Vol.3 No.1, p.9.

(6) Sadayuki Sato, *Nihon Kigyo no Takokusekikigyoka no Genjo to Kadai (Trends and Problems on Multinationalization of Japanese Firms)*, presented at *Dai ikkai Kokusai Shijo Kaihatsu Senryaku Semina* (1st Seminar on International Market Development Strategy) March 26th, 1986, (Sponsor – Japan Management Assocation).

(7) Anthony W. Miles, Strategic Alliances, *Perspectives*, 276, Boston Consulting

Group, 1985, p.2.
(8) Japan Development Bank, *Chosa* (Survey) No. 107, May 1987, p.42.
(9) Theodore Levitt, *The Marketing Imagination*, Free Press, 1983, p.48. (Translated into Japanese by Mamoru Toki, pub. Diamond-sha, 1984, p.67)
(10) *Showa 60 Nendo Kigyo Hakusho* (White Paper on Companies in 1985), Keizai Doyukai, Jan. 1986, p.17.
(11) *Nihon Kigyo to Genchi Sapuraiya to no Torihiki ni kansuru Chosa Hokokusho* (Research on the Purchasing Activities from Local Parts-Suppliers by Japanese Firms), Nihon Shohkohkaigisho, March 1986, p.13.
(12) Porter M.E., *Competition in Global Industries*, HBS Press, 1986, p.315.