Foreign Direct Investment in Japan
The Current Status and Some Managerial Issues

by Rei Hasegawa

Contents

1 The low level of foreign direct investment in Japan
2 The advantages of foreign owned firms in Japan
3 The incompatibility of foreign management styles with the Japanese market
4 U.S. firms vs. European firms in Japan
5 Concluding remarks

1 The low level of foreign direct investment in Japan

In comparison to another advanced countries, foreign direct investment in Japan has been criticized as being too low relative to the scale of Japanese direct investment abroad. The extent of this direct investment into Japan and outward from Japan relative to the GDP of each nation is shown in figure 1−1 and figure 1−2 for the 15 principal nations of the OECD in order to measure the size of the imbalance. ("JDB Research Report №225" 1997 p.22). The result shows that Japanese direct investment abroad is neither outstandingly high nor low relative to its GDP. The imbalance between Japanese direct investment abroad and foreign direct investment in Japan is rather due to the low level of foreign direct investment in Japan relative to Japan's GDP.

According to a similar study conducted by the Japan Development Bank, the net amount of Japanese direct investment abroad was 15.5 times the amount of foreign investment in Japan on a balance base in December 1995. During the 1990's, this figure has become 21.8 times on a flow base.

After the liberalization in Japan of the 1980's, FDI (foreign direct investment) in Japan grew steadily until just recently. However, because of drastic changes in the business environment of the Japanese market in the 1990's, particularly because of a rise in various business costs, the attractiveness of the Japanese

Figure 1 − 1 Outward FDI and GDP ('90−'94, 14 principal nations of OECD)

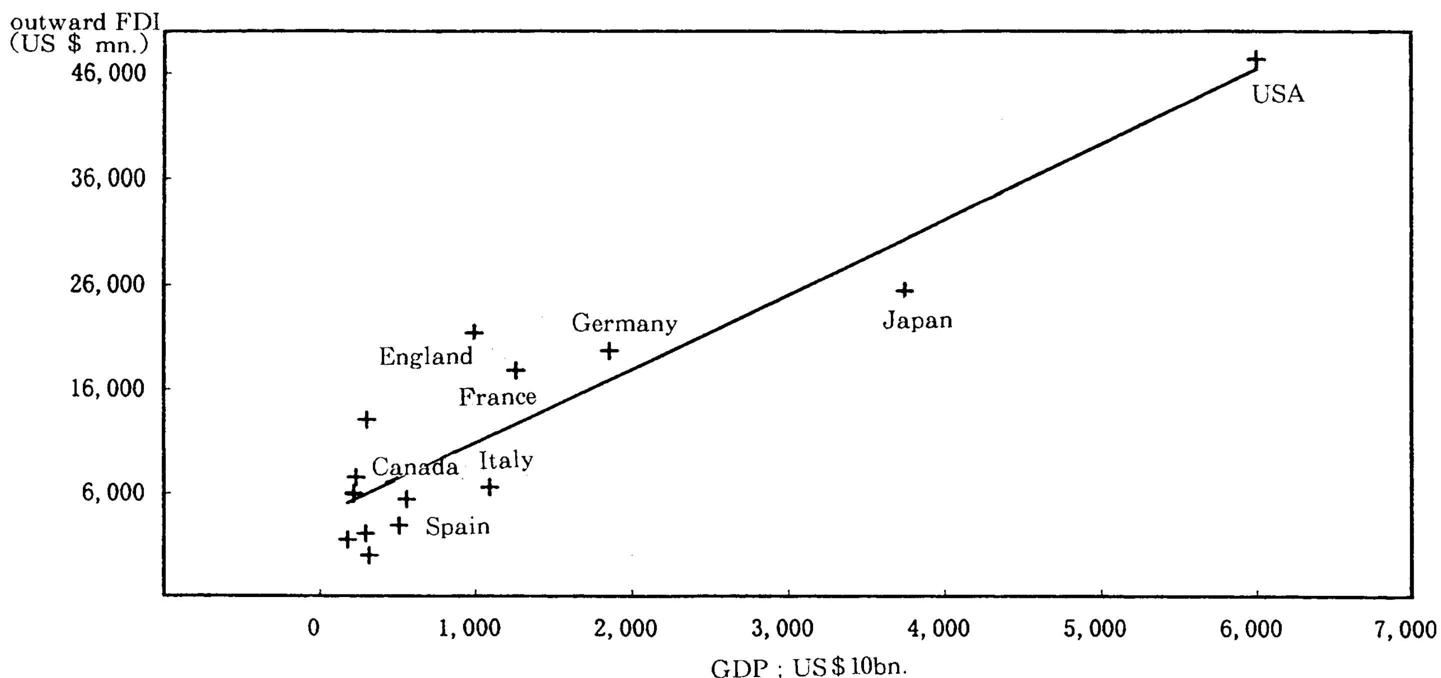
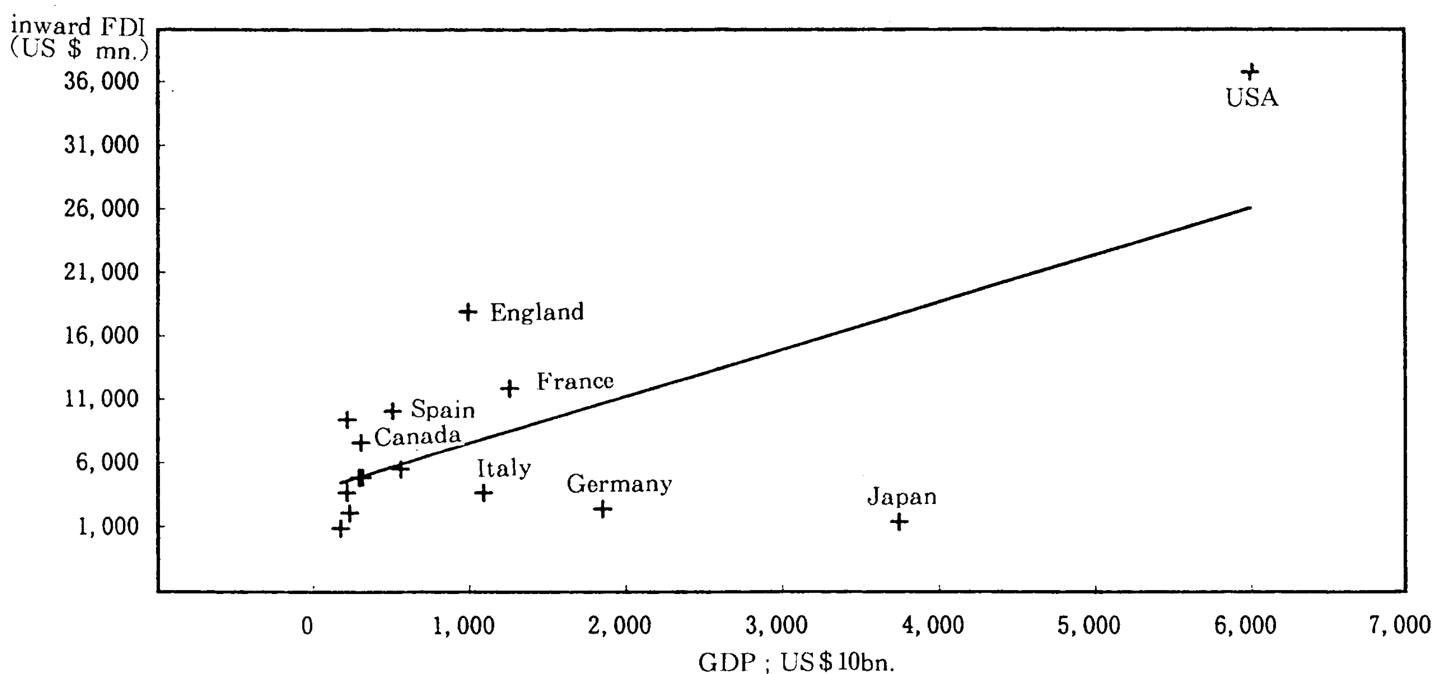


Figure 1 − 2 Inward FDI and GDP ('90−'94, 15 principal nations of OECD)



Sources : OECD "National Accounts", "International Direct Investment Statistics Yearbook 96"
Copied from "JDB Research Report"№225

market was dramatically reduced -- for both domestic and foreign companies. At this time, a number of domestic firms strengthened their overseas operations, and some foreign-owned firms withdrew from the Japanese market. As a result, the total movement of capital in fiscal year 1993 turned out to be a net outflow

from Japan of about 1.0 billion dollars (newly incoming capital minus capital withdrawals).

One of the reasons for the low level of foreign direct investment into Japan on a balance base has been said to be Japan's postwar foreign capital regulations. A Foreign Exchange Law was enacted in 1950, and thereby the introduction of the foreign capital into Japan, which had been barred during the second world war, was reinitiated. In 1964, Japanese participation in the OECD forced Japan to gradually liberalize the movement of capital. Such liberalization continued from the first liberalization of 1967 until the fifth liberalization of 1973. In May of 1976, this liberalization program was complete, except for agriculture, the marine industry, the mining industry, the petroleum industry, leather manufacturing, and industries related to national security. At this stage, capital liberalization was Japan's national policy. One month after a request for foreign direct investment was submitted to the Minister of Finance, the request would be accepted automatically. Moreover, in 1980, the Foreign Exchange Law was amended to state that such permission would be given on the very same day as the request. In Japan, this is called "principally free to invest". In 1992, the procedures were further simplified to adopt the subsequent reporting system and for the acquisition of less than 10% of the shares of a listed domestic company, the requirement for subsequent reporting was dropped [1].

Besides the historical effects of Japan's regulations on foreign capital, various other factors are pointed out as causes of the low level of FDI in Japan. On a macro base, the Japan Development Bank conducted regression analysis to seek determinants of foreign direct investment levels in advanced nations. Among other factors, the scale of the economy (GDP), the possibility of talented personnel recruitment, and the balance of payment [2] were factors found to be significant at the 5% level. General business costs and real estate costs were also significant at the 10 % level. Market growth, labor costs, taxation, investment efficiency, and productivity were not found significant at the above levels.

Furthermore, the closed nature of the Japanese market has also been considered a factor which has impaired the entry of foreign firms into Japan. It seems that this criticism that the Japanese market is closed differs depending on

whether it comes from newly-coming firms or foreign owned firms already operating in Japan. Many of the companies who are eager to enter the Japanese market belong to industries such as computer, telecommunications, marketing, etc., where the overseas firms possess certain competitive advantages over domestic Japanese enterprises. The point of their criticisms is that there often seem to be domestic Japanese restrictions which they say inhibit their ability to start operations in Japan. In order to modify these institutional or regulatory restrictions, international reciprocity has now become a key word. Actually, some domestic Japanese regulations have recently been reviewed and alleviated, giving foreign firms new opportunities in Japan.

As for foreign firms already operating in Japan, the rationale behind their criticisms that the Japanese market is closed seems to be as follows: "We have captured certain share of the market worldwide. Japan is the only market in the world where we have not been able to attain that level of market share. It must be because the Japanese market is exceptionally closed." Criticism like this has come from both the company level and the industry level. While this rationale may be true in the case of some foreign firms, there are also a number of foreign firms who are competing successfully with domestic Japanese firms. Some foreign firms are even demonstrating overwhelming strength in certain product categories.

During the last 15 years or so, the rationale of Japanese management has been extensively studied from a theoretical point of view. Light has been shed on the economic rationale behind the exclusive transactions that prevailed within Japan. The long-term exclusive relationship between the buyer and seller was termed an intermediate form of transaction, and under certain conditions it assumed the merits of both market transactions and organizational transactions. Thus, maintaining a steady relationship between the transactors per se is not an issue. But if significant differences in the ease of entry to another nation's market exist due to the difference in transactional forms, this difference can be seen as unfair internationally.

To evaluate the opportunities that foreign firms have to operate their business successfully in Japan, we need to undertake a complex examination taking such

factors into account as cultural, social, and economic differences, the compatibility of foreign management styles with those differences, the effect of government and industrial regulations, the competitiveness of domestic and foreign firms, etc.

To properly evaluate FDI in Japan, we also need to examine the other methods of entering the Japanese market, such as through exporting or licensing. In the case of American firms with extensive sales overseas, figure 2 shows the breakdown of sales channeled to England, Germany, and Japan. Compared with England and Germany, the ratio of sales by overseas subsidiaries is considerably low in Japan. Dunning (1996 pp.23-25) commented on this, saying that -- for American firms -- the location advantages of FDI are greater in England and Germany than they are in Japan. According to Dunning, location disadvantages in Japan include exchange rate fluctuations, political instability and risk, weak infrastructure, the tax regime, the regulatory environment, effective market protection, the market size and characteristics, the physical and psychic distance be-

Figure 2 Alternative modalities of servicing Japanese, UK and German markets by US firms, 1989

	Affiliate sales	Exports	Licensed sales	Total
Japan				
All industries (US$ bn.)	49.7	42.8	20.9	113.4
(Per capita) (US$)	403.7	347.7	169.8	921.2
(% of total)	43.8	37.7	18.4	100.0
UK				
All industries (US$ bn.)	125.3	20.8	3.2	149.3
(Per capita) (US$)	2190.5	363.6	55.9	2610.0
(% of total)	83.9	13.9	2.1	100.0
Germany				
All industries (US$ bn.)	71.7	16.8	2.7	91.2
(Per capita) (US$)	1156.5	271.0	43.5	1471.0
(% of total)	78.6	18.4	3.0	100.0

Notes:
Affiliate sales represent value of domestic sales of US manufacturing affiliates in the three countries.
Exports represent all exports to the three countries by all US firms (part of these may be included in affiliate sales).
Licensed sales represent royalties and fees paid by unaffiliated Japanese, UK or German firms to US firms multiplied by 20 (it being assumed that royalties and fees were calculated as 5 per cent of gross sales).

Sources : US Department of Commerce (1992a, 1992b, 1993a and 1993b) ; Weinberg (1993).
Copied from Dunning (1996) p.23

tween the home country and host country, and the relative real wage (pp.29-38). Moreover, Dunning pointed out, as negative factors for foreign FDI in Japan, the difficulties of concluding cross-border mergers and acquisitions, the Keiretsu influences on FDI, and the role of the Japanese government.

The ratio between direct investment, export, and licensing differs industry by industry. Based on the above study conducted by Dunning, the ratio between subsidiary sales and exports for American firms in both England and Germany exceeded 70% in all industries except the electric/electronic equipment industry, which produced a ratio of 40.7% in England and 35.8% in Germany. Compared to this, the ratio in Japan was only around 25% in all industries, except for the machinery except electrical industry (75.6%) and the chemical & allied products industry (45.8%). To understand how best to cope with the issue of low FDI in Japan, a more detailed analysis at an industry level is necessary to supplement the aforementioned general locational factors.

When considering FDI in Japan, another important factor is the rapidly changing positions of Asian markets and Japan's relationship to them. While foreign firms were requesting Japan to open her markets, the cost of doing business in Japan grew greatly, and it became less attractive for European and U.S. firms to enter Japan. Differences between Japan and another Asian markets have been reduced in various ways. The option of locating their Asian center in Japan has become less attractive for European and U.S. enterprises, based on cost considerations. In other words, an overseas enterprise does not evaluate the Japanese market independent of other Asian countries. Evaluating the whole of Asia as one region and trying to choose the best location in the region has become essential, with advances in the economic status of many Asian countries and with the emergence of special regional concerns in Asia. In light of these changes, although Japan still offers a huge market, the regional center of Asia does not necessarily have to be in Japan. It is time to reexamine the nature of the division of labor among the Asian nations and redetermine what role Japan is playing or can best play in the future[3].

2 The advantages of foreign owned firms in Japan

Although the level of FDI is quite low in Japan, more than 70% of foreign owned enterprises in Japan consider their business activities successful (Yoshihara 1994 p.21). According to a survey conducted by the Ministry of International Trade and Investment, called "Trends of foreign owned enterprises in Japan" (1995), although total sales by foreign affiliates (companies with 50% or more of their capital coming from abroad) made up only 0.9 % of total domestic sales in Japan (the figure for manufacturing was 2.3 %, and the figure for non-manufacturing was 0.4 %), the ratio of current profits to net sales for foreign affiliates was as high as 3.0 % -- greatly exceeding Japan's domestic average. The survey also listed the motives of foreign firms for entry into the Japanese market as shown in figure 3.

Figure 3 Motives of foreign firms for entry into the Japanese market

Because of the high growth of the Japanese market	79.3%
Because Japan is in a good location for entering into other Asian nations	33.8%
In order to utilize the high level of technology in Japan	25.4%
For excellent access to raw materials and parts	10.8%
Because no strongly competitive firms are in the area	8.8%
For access to abundant funds	7.6%
For other reasons	14.8%

(Multiple answers were allowed)

Source:"28th:Annual Trend of Foreign owned Firms in Japan" MITI (1995)

A foreign firm coming into the Japanese market which is motivated by Japan's growth potentiality must possess some specific and solid advantages in order to compete with Japanese rivals. Some foreign affiliates have demonstrated the specific and solid advantage of being able to apply "niche strategies". There are two types of niche strategies, one being the generation of a new market, and the other being the targeting of high-end users.

The niche strategy of generating a new market is greatly influenced by cultural

effects. People in different cultures have different life styles, so foreign firms are in a better position to generate new markets by introducing products used widely in their home country but not in Japan. This type of niche strategy is basically different from what was often seen in Japan when rather small Japanese firms introduced a new product to a quite limited segment of consumers. In general, these often seen niche products were developed based on unique technologies or on a new idea which arose after carefully considering how to change some aspect of ordinary daily life. Since these technologies were in many cases suitable for small-scale production, niche firms were usually small in size, and the niche market was also usually small. On the other hand, the niche market created by foreign affiliates has had the potential to expand greatly in a short time, since the foreign affiliate has already established an extensive supply system elsewhere in the world.

The second type of niche strategy can be called the high-end niche strategy since it targets high-class consumers. A number of European firms enjoying the reputation of being trustworthy manufacturers of high quality products fall into this category. This category also includes firms, many of which are American firms, utilizing state-of-the-art technology.

Affiliates of American firms have demonstrated strength in the field of consumer marketing. For instance, a reduction in the retail price was realized by means of direct transactions with manufacturers, eliminating intermediaries, which had never been done before among Japanese distributors. Some foreign owned firms have been successful with direct marketing to consumers. Dell's personal computers, LLB's clothing and personal articles, and Amway's home products are examples. Furthermore, some European companies, such as BMW, are well known for introducing sales promotions that use showrooms instead of relying heavily on the personal contacts of sales persons.

3 The incompatibility of foreign management styles with the Japanese market

Looking at the nationalities of the headquarters of foreign affiliates in Japan,

we find that the overwhelming majority are European and North American enterprises. These two account for more than 84% of the total number of foreign affiliates in 1994. To break it down further, American enterprises make up 42.1% of the total, followed by German enterprises -- which make up 10.3 % of the total, Swiss companies -- which account for 5.7%, and English companies -- which account for 5.4%. Asian enterprises account for 12.6% of the total. This figure is up 3.9% from 2 years ago, according to the aforementioned survey conducted by the MITI.

Within each country, firms operate to a certain degree according to a common style of management across industries. This results from the fact that management styles do not develop independently, but evolve within the history and culture of each nation, so as to harmonize with other institutions, cultural values and many other surrounding factors. Only those business practices compatible with the cultural environment survive and form a unique management style in each country. In this section, let's first look for similarities between European and North American companies with respect to human resource management, and then try to identify any incompatible areas between Western human resources management and the Japanese labor market to see whether it may be one of the fundamental causes of the difficulties which foreign affiliates face in Japan.

In Europe and North America, the source of 84% of all foreign direct investment, a competitive labor market exists outside for each profession. Thus, European and North American companies generally recruit their skilled workers and specialists from these outside labor markets. The number of working levels (the hierarchy) in the various sections of a firm differ for each profession, so it is not possible to directly compare the working levels in different sections. Consequently, job-rotation or personnel transfer does not normally occur across sections.

In Japanese companies, on the other hand, the working levels are standardized and basically common across sections, so that employees can be transferred from section to section every few years as they are promoted to higher levels. Thus, with Japanese companies, the personnel division is responsible for moving

personnel through the various sections of the entire company. This is quite different from the European and North American method, in which employees move only in a vertical direction within one section and the manager of each section has the final responsibility for his personnel.

One shortcoming of European and North American organizations has been said to be low worker incentive, since workers are not normally expected to participate in the decision-making process. However, because the number of positions available at each level is predetermined in each section, and because promotion is based on a comparative evaluation of the workers in that section, there is severe competition between the employees in each section for a very limited number of high-level positions. This competition within each section is said to raise worker incentive. Furthermore, in Europe and North America, because of the existence of competitive outside labor markets, workers can move from one company to another advantageously if they have demonstrated special abilities or superior performance at their current place of work. Thus, the existence of a competitive labor market alleviates any reduction of worker incentive that may arise due to not being able to participate in the decision-making process.

After World War II, Japanese companies imported technology and production facilities from Western firms and modified to improve their productivity. These modifications were often made thanks to ideas proposed by workers. Over time, with repeated modifications, the knowledge and skills of the workers progressed hand in hand with the new technology and production facilities of the company. Consequently, the skills and knowledge of Japanese workers became "firm-specific", meaning that the skills and knowledge could be used most effectively at that specific company. Therefore, moving from one company to another may result in ostracizing and a reduction in salary, since changing companies is thought to cause a loss of efficiency, and seeking personal gain in the face of such loss would be grossly selfish. As a result, changing jobs is normally less attractive than staying at one's current place of work, and we don't see an outside labor market in Japan like we see in Western countries.

It is said that the only competitive labor market that exists in Japan is the one for graduates fresh out of universities, high schools, and other educational

institutions. However, these graduates have tendency to prefer working for large scale prestigious companies, knowing that their salary would get smaller and smaller if they moved from one company to another in the future. Since salaries are normally larger at larger firms, recent graduates usually want to start working at a large company. There is a cognitive gap between the foreign affiliates in Japan and these new graduates, because many of the foreign companies operating in Japan are subsidiaries of huge multinational corporations which are running relatively small scale facilities that are not well known in Japan. As long as new graduates look upon these foreign owned firms with the same criteria they use when they look upon Japanese firms, it will be difficult for the foreign owned firms to recruit talented young workers -- unless they offer unique opportunities for the new graduates.

So far we have been reviewing the incompatibility of the human resources management practices of foreign affiliates with the Japanese labor market. Now we will look at the necessity of foreign subsidiaries maintaining human resources management that is compatible with the management practices of their home countries. It is critical that local human resources management be compatible with that of a firm's headquarters at least for those workers who came from the home country, if the company wants to pursue the benefits of integrating workers from various countries. In that case, the employees at the local unit will be workers of varied cultural and career backgrounds, varied native languages, varied educational backgrounds, varied nationalities, and so on. And it will be important to give strong incentives to those workers for whom the time spent in Japan, however long or short it may be, will be just one part of their entire career. Even though there may not be a competitive labor market for these workers in Japan, they will probably re-enter the competitive labor market in their home country in the future. Therefore, their work experience in Japan should not hinder their personal career development -- but rather should contribute to their career development in their own special field.

Finally, we will look at the necessity of foreign subsidiaries maintaining human resources management that is compatible with the local Japanese labor market. It may not be necessary to adopt the Japanese style of human resource

management described earlier in order to become compatible with the local Japanese labor market. The benefits of having two different co-existing management styles in one market may exceed the benefit of making the management style as Japanese-like as possible. It may be beneficial for the workers to have two different coexisting human resource management styles, offering alternative patterns of employment opportunities, remuneration and rewards, skill development, working hours, personal relations with other employees, and so on. It may also be beneficial for the company if the coexistence of two different human resource management styles could function as a screening mechanism to identify those workers who can work better under one style or the other. This could only be realized, however, when workers are given the necessary information about the differences between the management styles and about what impact each style would have on their way of life. Only then could the workers make intelligent choices about which management style would best fit to their needs.

When the human resource management system does not screen workers properly, the problem known as "reverse selection" occurs, in which the company hires a person who will not be motivated by the company's incentive system. Which would provide more benefit to foreign affiliates -- adopting a Japanese management style, or maintaining a coexistence of Japanese and Western management styles? In the case of maintaining two different coexisting styles, the relative amount of benefit obtained from each style should be balanced. If the relative amount of benefit can be measured, and if the benefit of one of the styles (for example, the foreign management style) is very small, then maintaining a coexistence of two different management styles would not be recommended.

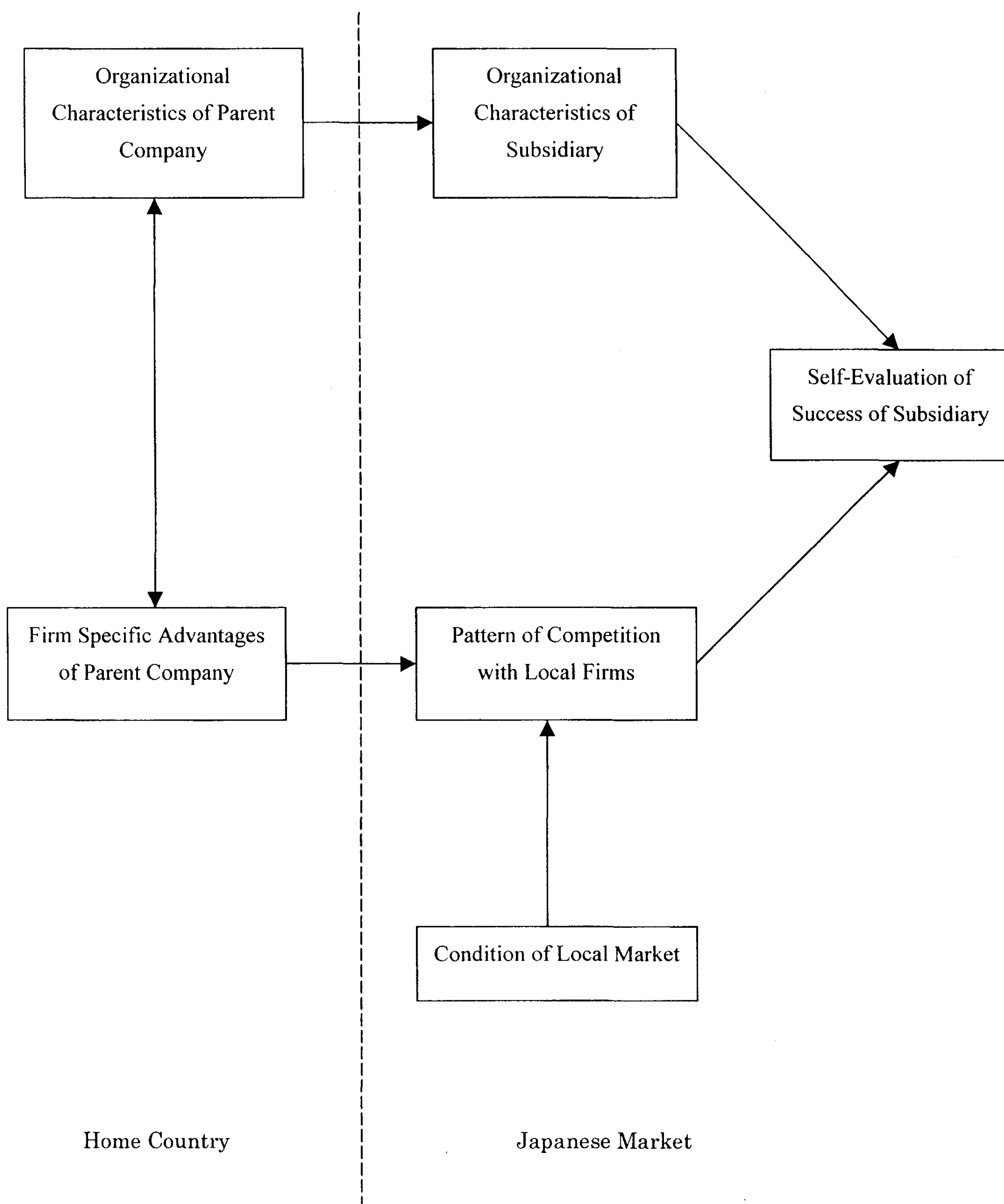
4 U.S. firms vs. European firms in Japan

There are many factors which affect the success of foreign subsidiaries. In this section, we will try to see how the characteristics of a parent firm affects the self-evaluation of success in its subsidiary in Japan. We will compare U.S. firms and European firms. For this purpose, we have developed the conceptual framework showing causal relationships between some related factors depicted in

figure 4.

U.S. and European firms possess different organizational characteristics, a development influenced not only by economic factors, but also by political , historical, and location restraints. These various organizational characteristics are mu-

Figure 4 Hypothetical relationships of the factors affecting the performance of foreign owned firms in Japan



tually interdependent, providing specific advantages to each firm. These factors will have a strong influence on the way that overseas subsidiaries react to their local market conditions, whether they be conditions concerning demand or conditions concerning supply. We hypothesize that the self-evaluation of success by a foreign firm is largely determined by the organizational characteristics of its subsidiary (including the role that was assigned to that subsidiary by the parent company) and the pattern of competition that exists with local rivals (which is determined by the specific advantages of the parent company and the condition of the local market).

4-1 U.S. firms in Japan

Having a huge domestic market, American firms expanded greatly until World War II. Except for small scale operations overseas (mainly for the procurement of raw materials), American firms stayed domestic and invented refined management systems which used so-called scientific approaches. After World War II, American firms started internationalization on a large scale due to the saturation of domestic markets. At that time, America was on the top of the world economically, supposedly the most advanced economic society in the world. Thus, the top management of American firms at that time did not doubt that it was America's mission to help foreign nations, by transferring their superior technology and knowledge. In other words, what worked in America should work elsewhere in the world. Thus, what many of the American companies did when internationalizing was simply to run operations abroad as similarly as possible to the way that operations were run at headquarters. Bartlett and Ghoshal (1989 p.51) explain that the role of overseas subsidiaries was to adopt and apply parent company competencies. All core knowledge and capability was developed and protected at central headquarters.

Organizationally, an overseas subsidiary is often a replica of its parent company. The period of time expatriate managers stay in Japan is considerably shorter for American companies than it is for European companies -- maybe three to five years on the average, as opposed to ten to twenty years for European companies. In a centralized organization, the mainstream career path

is within headquarters. Therefore, an overseas assignment is considered only one step on the way to a higher position, and may even be considered as management training for prospective headquarters employees.

Since foreign personnel stay in Japan for only a short time, it is rather easy to give overseas assignments to anyone, whether they be top management or lower level management. Thus, hypothetically there should be more levels of managers working together in American subsidiaries than there are working together in European subsidiaries in Japan, which in turn should make it easier for American subsidiaries to build a replica of their parent company. The managers of these American subsidiaries could transplant the American style of management at all levels and across all sections within their operations in Japan.

Now, let us take a look at the specific advantages that North American firms generally hold and their competition with Japanese rival firms, in light of the supply and demand conditions of the Japanese market. In American firms, core information is produced and protected at central headquarters, which means that it is most efficient to make important decisions at headquarters, utilizing the core information there. It is a well-known fact that centralized organization is most effective when the market is stable, or when the market experiences drastic change. When the market is stable, the centrally-made plan requires no change, and each division needs only to follow that plan. On the other hand, when the market changes so drastically that small adjustments or improvements would be insufficient to cope with those changes, top management could make the necessary radical decisions, and all the members of the organization could conform to that decision at once in order to cope with the drastic changes.

In the Japanese market, where small changes (such as subtle product differentiation) occur frequently, the American type of centralized organization could face problems. When the unit making the decision is far away from the unit that must exercise that decision, it takes particularly long for the organization to respond to frequent changes in the market.

Another problem for subsidiaries of American firms is that headquarters tends to make final decisions by simply adopting whatever they feel confident with. In other words, anything which has been successful in another part of the world is

likely to be introduced into Japan -- products, promotions, ingredients, technology, TV commercials, marketing channels, and so on. While this strategy could minimize certain marketing costs worldwide, it always retains the risk of not adequately adapting to the local needs.

To overcome these two shortcomings (the inability to respond quickly enough to frequent small changes in the Japanese market, and inadequate adaptation to local needs), one possibility is to focus on an area where the need for prompt responses and local adaptation is minimal. It would not be advisable to compete directly with Japanese firms in areas where subtle product differentiation are frequently necessary. These are areas where Japanese firms normally hold the competitive edge. Instead, since a large multinational corporation produces and sells a large number of products or brands, it could selectively introduce products with distinct features not offered to Japanese consumers by Japanese firms.

There are some market sectors in Japan where frequent small changes do not normally occur. American firms possess competitive advantages over Japanese firms in some of these areas. It is expected that, as more American firms enter the Japanese market, there will be more opportunities for American and Japanese firms to interact for their mutual benefit.

4-2 European firms in Japan

Internationalization of European enterprises started before World War II. The relatively small size of domestic markets and the close proximity of each nation to its neighbor facilitated foreign market entry by European firms. This entry was further facilitated by the existence of colonies which had economic ties to European nations.

The management system of European firms was not yet refined when internationalization was initiated. Thus, unlike American firms, which controlled overseas subsidiaries with sophisticated management systems acquired from headquarters at the time of internationalization, the management of foreign subsidiaries of European parent companies relied heavily upon human relationships. Many of these European firms had been run by family members or relatives for a long time. Since a reliable person, often a member of the family or a

relative, was transferred overseas to operate the foreign unit, the organizational form of European firms is sometimes called the "mother-daughter" form.

Before and during World War II, it was not so easy for the parent company to direct and strictly control overseas units due to the insufficient means available for international communication and travel. As a result, overseas units had to operate more or less autonomously, with the local president having the authority to make critical decisions. Some of the subsidiaries of European multinational corporations have the capability to conduct large scale research and development programs locally. As Bartlett and Ghoshal (1989, p.52) put it, European multinationals are decentralized, so their overseas subsidiaries are responsible for exploiting local opportunities, have self-sufficient R&D facilities, and have the authority to make important decisions.

An overseas assignment is quite important for career development in European corporations, especially when the domestic market is small. It is necessary to spend a large proportion of one's career outside one's home country. It is not exceptional for the expatriate of European companies to stay in Japan for over ten years.

As they stay in Japan for such a long time, they become thoroughly acquainted with local situations, including consumer needs, the technical level of rival firms, where niche markets exit, and so on. This is indispensable information for exploiting local opportunities. If the same person stays in Japan as the president of a subsidiary for a long time, a relatively high level of trust is created between the Japanese suppliers or distributors and the European subsidiary based on their continually repeated transactions.

Comparing the competitive strategies of European multinational firms with those of American or Japanese firms (in the automobile industry, for example), each European firm targets a distinct segregated market in terms of demographics, income levels, social status, life style, or other factors. On the other hand, American and Japanese firms are more likely to offer a full line of products or services to meet diversified needs and to foster the growth of the company. There are a number of large European multinational corporations which have acquired a worldwide reputation for expertise in their own special traditional area.

This reputation extends to the Japanese market as well. Those subsidiaries of European multinationals who rely on such a worldwide reputation often act as a niche in the Japanese market, targeting a clearly defined segment of consumers and not necessarily pursuing an increase in scale [4]. In this case, too much localization should be avoided so as not to lose the original product-image and company reputation.

As far as the products and services are concerned, perhaps European firms should not alter their traditional image, in order to preserve their good reputation. However, with their decentralized system, many European companies view and treat each foreign market differently, recognizing and respecting each local difference. One option for international differentiation is pricing. Prices of the same product vary from country to country. Often, the price in Japan is higher than it is in other countries. Worldwide price variations are often larger with European multinationals than they are with American multinationals. Another area for international differentiation is the nature and extent of the target consumer group for the product or service. Some expensive and prestigious products have only a limited number of high society people as their target in Europe, but are sold widely in Japan to people of almost every demographic group and social status [5].

5 Concluding remarks

As we have seen so far, the management style and competitive strategies of foreign subsidiaries in Japan are influenced by various factors. For instance, the human resources management methods of foreign affiliates in Japan are influenced by the nature of the Japanese labor market, which calls for a personnel policy unlike that found in most Western corporations. Whether the subsidiary tries to maintain a mostly Western style of management or tries to adopt a Japanese style of management, there will be both positive and negative effects from either strategy at the company level. At this time, it is probably advisable for most foreign affiliates in Japan to continue investigating various methods on a trial and error basis until the best solution is found.

In the meantime, if there is a sufficient number of foreign subsidiaries in Japan, the coexistence of two different human resources management systems in Japan will offer alternative patterns of employment for workers, and may function as a screening mechanism for companies to identify those workers who can work better under one style or the other.

We can anticipate a mutual learning process occurring between domestic Japanese firms and foreign affiliates in Japan. It is not only the subsidiaries that will learn by being exposed to the conditions in Japan. Japanese firms will also learn by being exposed to the foreign affiliates in Japan.

Other factors influencing the competitive strategies of foreign affiliates in Japan concern the characteristics of the parent company: its competitive advantages, its worldwide reputation, its organizational structure, its organizational capabilities for technology development and transfer, and so on. These factors differ greatly between North American firms and European firms. Thus, the pattern of competition of the foreign subsidiary with its Japanese rivals and the way the foreign subsidiary responds to local needs may vary depending on the nationality of the parent company.

Endnotes:

(1) Therefore, the number of cases reported decreased sharply --from 4212 in 1991, to 1271 in 1992. On the other hand, the amount of FDI in Japan decreased slightly from 4.3 billion dollars in 1991 to 4.1 billion dollars in 1992.

(2) Regarding the influence of the national balance of payments, the data show that the more trade surplus a nation has, the less foreign direct investment it receives. In line with this result, Wakasugi, who studied manufacturing exports to Japan and FDI in Japan during the second half of the 1980's (1996 pp. 121 - 122), pointed out that trade and foreign direct investment in Japan did not show a substitutionary relationship, but rather showed a complementary relationship. Between 1982 and 1991, irrespective of the aggravated investment environment in

Japan, the ratio of FDI into Japan verses manufacturing imports did not change much, staying at approximately 1.5 %. An increase of FDI in Japan during this time was especially remarkable in the service-industry sector. With an increase in manufacturing imports, a complementary increase in services will also become necessary. Since it is difficult for parent companies abroad to offer such services by exporting, service subsidiaries were established to support the parent company's manufactured imports. One European automobile maker purposely increased its FDI in Japan in order to strengthen its consumer support system in Japan.

(3) Recently, arguments for restricting FDI in Japan have been less common, being replaced by arguments for promoting FDI in Japan, because of the economic benefits to Japan that are foreseen. The Nippon Kezai Shimbun (May 20th, 1997 evening edition) summarized this point of view in its article entitled "White Paper on International Trade, 1997". This year, one of the main points of this annual white paper is that the business environment should be improved in order to attract FDI, since investment from overseas enterprises can activate the Japanese economy. Foreign direct investment in Japan raises employment and income-levels. Moreover, by increasing competition in the service field, FDI can contribute to reducing the expensive cost structure in Japan. FDI is drastically low in Japan. It is much higher not only in Europe and North America, but also in Asian nations such as Korea and Thailand. In 1994, the ratio between FDI abroad by the home country and FDI in the home country from abroad was about 1.4 for England, Germany, and the United States -- but it was about 14.0 for Japan. Furthermore, in 1993, the ratio between foreign funds and domestic funds involved in research and development programs was 14.5% in England and 9.8% in America, but only 0.1% in Japan. In order to improve the Japanese business environment, foreign owned firms first requested help overcoming the parent company's "insufficient understanding of the Japanese situation". Next, foreign firms requested "reducing economic and social costs by means of deregulation". Finally, they requested "increasing the transparency of formal procedures". The May 1997 white paper also pointed out that other advanced nations now tend to concentrate growing industries in certain locations, as in the "Silicon

Valley" of the United States. The white paper warned that, if Japan as a business location cannot be made attractive, the Japanese economy might lag behind other advanced nations in the future.

(4) An article in "Nikkei Business" (June 2, 1997) reported on an evaluation of Japanese automobile manufactures by BMW, which concluded that Japanese automobile makers are producing too much. Producing a little less would probably be more profitable.

(5) Lasserre and Scutte (1995) concluded that, where a European firm holds a competitive advantage over Japanese firms, this advantage is a result of the desire for local consumers to establish and enhance a positive self-image by using prestigious products.

References:

Bartlett C.A. and S. Ghoshal (1989) "Managing Across Borders: The Transnational Solution" Harvard Business School Press.

Dunning J.H. (1996) 'Explaining foreign direct investment in Japan: some theoretical insights' in "Foreign direct investment in Japan" Edited by M. Yoshitomi and E.M. Graham (pp.8-63), Edward Elgar Cheltenham (UK), Brookfield (US).

Lasserre P. and H. Scutte (1995) "Strategies for Asia Pacific" Macmillan Press Ltd. London. (『Seioukigyouno Tainichi Asia Senryaku (Strategies for Asia Pacific by West European Companies)』 1997 translated by H. Hasegawa into Japanese, Gakubunnsha)

Ohasi S., A. Oda and G. Schanz (1995) 『Nihonteki Keiei to Doitsuteki Keiei (Japanese Management and German Management)』 (in Japanese) Chikuma Shobou.

Wakasugi R. (1996) 'Why foreign firms' entry has been low in Japan : an empirical examination' in "Foreign direct investment in Japan" Edited by M. Yoshitomi and E. M. Graham (pp.111-135), Edward Elgar Cheltenham (UK), Brookfield (US).

Yoshihara H. (1994) 『Gaisikei Kigyou (Foreign Owned Firms in Japan)』 (in Japanese) Doubunkan.

MITI (1995) "28th Annual Trend of Foreign Owned Firms in Japan" (in Japanese).

Japan Development Bank (1997) "JDB Research Report : Analysis of Foreign Direct Investment and Foreign Owned Firms in Japan" (in Japanese) No.225.