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Abstract	History of overseas strategies of Japanese firms can be divided into three periods; until 1960's, when import and export were the main focus; from 1970's to the first half of 1980's, when establishing overseas bases was a major interest for clear purposes of reducing labor cost, averting trade conflicts, or securing natural resources; and after 1985, when strategy started to be formulated from more global viewpoint in order to cope with new situation arising from stronger yen and Japan having become one of the largest creditor nations in the world. In the globalization strategy, optimum sourcing of management resources in the world, such as men, materials, money, and information, is not enough; they must be utilized with maximum efficiency. In order to achieve this, the whole company group including overseas subsidiaries must be vitalized. In formulating and implementing a vitalization strategy, the following good cycle must be realized: business philosophy based on respect for humanity + clear long-term objective of the company for survival and growth → collection of information from reliable people → appropriate location of overseas subsidiaries → management and vitalization of the company group as a whole updating and expanding information by further information collection activity → establishment of new overseas subsidiaries and their management → collection of new information →...
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# GLOBALIZATION STRATEGY

by

*Ryûei Shimizu*

## ***ABSTRACT***

History of overseas strategies of Japanese firms can be divided into three periods; until 1960's, when import and export were the main focus; from 1970's to the first half of 1980's, when establishing overseas bases was a major interest for clear purposes of reducing labor cost, averting trade conflicts, or securing natural resources; and after 1985, when strategy started to be formulated from more global viewpoint in order to cope with new situation arising from stronger yen and Japan having become one of the largest creditor nations in the world. In the globalization strategy, optimum sourcing of management resources in the world, such as men, materials, money, and information, is not enough; they must be utilized with maximum efficiency. In order to achieve this, the whole company group including overseas subsidiaries must be vitalized. In formulating and implementing a vitalization strategy, the following good cycle must be realized: business philosophy based on respect for humanity + clear long-term objective of the company for survival and growth → collection of information from reliable people → appropriate location of overseas subsidiaries → management and vitalization of the company group as a whole → updating and expanding information by further information collection activity → establishment of new overseas subsidiaries and their management → collection of new information → ...

## ***Key Words***

credibility transaction; kashi-kari; konkai-wa-naitekure; yoroshiku; reliable people; respect for humanity; overseas subsidiaries; company group vitalization; business philosophy; respect for humanity; decision-making criteria; history of overseas strategy

## ***1 Deployment of New Overseas Strategy***

### **1-1 History of Deployment of Overseas Strategies in Japanese Companies**

The history of deployment of overseas strategies of Japanese firms from pre-war days to date (1990) can be divided into three periods. In the first period, up to 1960's, they were deployed centering around import and export. The second period, from 1970's to the first half of 1980's, was the period of deploying strategies to set up overseas bases, each addressing well-defined objectives such as labor cost reduction, evasion of trade friction, or securing natural resources. The third period, from 1985 to 1990, is the period

of deploying globalization strategies in order to better utilize available management resources in coping with new situation emerging in the world, including stronger yen, Japan becoming one of the largest creditor nations, enlarged Asian market, integration of EC market, open economy policies initiated by socialist countries, reforms undertaken by East European nations and Soviet Union, etc. Strategies entirely different from those taken before 1985, such as establishment of research laboratories abroad and appointing foreign personnel as directors, are now being adopted. Rapid changes in the conditions both at home and abroad are driving Japanese firms to take various globalization strategies with some uncertainty left unclarified as to where they are leading them.

Michael E. Portere<sup>1)</sup> divides a typical pattern of western companies going overseas into three stages, i.e. export-centered, multi-domestic, and globalization strategies. Japanese manufacturing firms followed a different pattern in going overseas. In the pre-war days, they dealt with foreign markets mainly through *sogoshosha* (general trading firms). In 1960's, they went overseas to cope with the rapid growth of national economy; they established production facilities in Southeast Asia seeking for inexpensive labor, established production and marketing bases in advanced nations in the west to avoid causing trade disputes, or set up production facilities in Australia to secure such natural resources as iron ore and raw wool. Here too, Japanese firms did not follow the typical pattern of multinational firms, or the multi-domestic pattern with independent systems established in host countries, because they had no such experience of country-wise marketing and production; instead, they set up a centralized system in which the head office in Japan held control over overseas subsidiaries.

Such a difference in the patterns of overseas strategies between western and Japanese firms results mainly from differences in the products they dealt in. Western firms which adopted multi-domestic strategies dealt in such standardized food items and daily necessities as coffee, cocoa, coke and toothpaste, or were engaged in retailing, wholesaling, insurance business, etc. These firms, mainly engaged in 'downstream activities' including marketing, sales and physical distribution, found it more efficient to conduct their operations in host countries. In fact, some of the Japanese firms whose main products were such standardized products and those whose emphasis was on retail business took similar patterns of going abroad. Hattori Seiko Co., LTD., the oldest and the largest watch maker in Japan, converted its business from import of watches to import-substitute manufacturing in 1881, and after the end of World War II, it established locally incorporated marketing firms in the U.S., Canada, UK, France, Germany, and Brasil, with the name of SEIKO. In addition, in order to cope with keen competition in the Japanese watch industry, the firm established production bases in Hong Kong, Singapore, the U.S., UK, and France, converting its import-export oriented strategy into multi-domestic strategy. Reiji Hattori<sup>2)</sup>, the president, explains the multi-domestic strategy of his company, 'The majority of marketing personnel of locally incorporated companies in the U.S., UK,

1) Porter, Michael E.; *Competition in Global Industries*, pp. 17-19 Harbard Business School Press, 1986

2) Shimizu, Ryūei; Interview Survey of Presidents of Large Companies and Leaders of the Other Fields (3), MITA SHOGAKU KENKYU Vol. 30, No. 3

Germany, etc. are the local people. The same is true for employees of overseas plants.' For manufacturing and the sale of information equipment, such as printers and computers, Seiko has started to adopt globalization strategy with its head office at its center. Seiko is one of those firms which were established before World War II and are following the three stages of development indicated by Porter.

Unlike western companies which dealt in goods and daily necessities in the pre-war days, Japanese firms which went overseas in 1970's dealt with durable consumer goods, including home electric appliances, VTR, copiers, cameras and automobiles, as well as their parts, and tried to deploy their globalization policy with an emphasis on the excellent quality and performance of their products. Because of their engineering capability, they did not take multi-domestic strategies geared to country-wise marketing without much consideration to values and life styles of the respective countries. Many of them had, from the beginning, plan to export their products to third countries or to reimport them into Japan. They installed the most sophisticated production facilities in their overseas subsidiaries to enable automated production of high quality products. In early 1980's, Matsushita Electric Industrial installed fully automatic insertion machines for TV production in its subsidiaries in Taiwan and Australia. Minoru Onishi<sup>3)</sup>, president of Fuji Photo Film Co., Ltd., the largest producer of film in Japan, stresses that when the company builds a new factory abroad, he makes sure that the most up-to-date facilities as those used in Japan are installed there. Because of the nature of their main products, Japanese multinational manufacturers, including the above two, took, from the beginning, globalization strategies with their head offices at their centers rather than multi-domestic strategies. (See Table 4-1)

**Table 1 3 Stages of Globalization Strategies Deployment  
Japanese and Western Firms**

	1st Stage	2nd Stage	3rd Stage
Western Firms (main products)	mainly imp.-exp. (all necessary products)	multi-domestic (U.S.: food, sundry goods, insurances Germany: chemicals)	globalization (U.S.: aircraft, computers)
Japanese Firms  (main products)	mainly imp.-exp.  (all necessary products)	global centering around head office  (home electric appliances, copiers, cameras, cars)	global, taking values of host countries into account (home electric appliances, cars, pharmaceuticals (inc. R & D))

3) *Ibid.*, (5) Vol. 30 No. 5.

### 1-1-2 New Overseas Strategies of Japanese Firms

Rapid changes in the economic structures both in and out of Japan, including stronger yen, forced Japanese firms to change their globalization strategies after 1985. Sudden increase in the funds resulting from yen appreciation facilitated overseas investment. In other words, improved financial standing of head offices made short-term financial performance of overseas operations less important than before, and made it easier to recruit excellent people for their overseas subsidiaries and research laboratories. Meanwhile, changes in the circumstances lessened the importance of the main objectives of globalization strategies existing since the 1970's centering around their head offices, i.e. reducing labor cost, averting trade conflicts, and securing natural resources. Due to rises in labor costs in NIES countries, operating in Southeast Asia just for the purpose of labor cost reduction was no longer valid. Globalization strategies of Japanese firms focusing on technological advantages could not any longer cope well with the new situation of trade friction problems far more complicated than those existing with advanced industrialized nations, which gave birth to theories of high-tech friction and structural friction, as well as those of controlled trade and those of Japan as a new threat.

This led Japanese firms to revise their globalization strategies taking into account values and thinking of the local people, the political conditions and legislations of the host countries, while establishing loose networks around the globe in order to utilize various resources in the most efficient ways. Japanese companies started employing world's most capable people with best treatment for research laboratories established in various countries, appointing top-class people to presidents' posts of local subsidiaries, and even appointing some of them to directors' positions in their head offices in Japan. They have started building networks of excellent, reliable people all over the world in order to enhance communication and to generate new information, expecting to vitalize the entire corporate groups in the world. Takeda Chemical Industries, Ltd., one of the largest pharmaceutical companies in Japan, began in 1978 establishing bases in France, Germany, Italy and the U.S. for the development of new pharmaceutical products, and in 1989, opened in the Harvard Medical School in the U.S. chairs of cytology and anatomy. In 1989, Sony appointed two American vice presidents of Sony America as directors of the head office. These cases typically indicate the trend of Japanese firms trying to deploy globalization policy, while maintaining their business philosophy — to respect human beings — and business goal — long-term survival and growth of the whole groups — and respecting unique value systems of host countries.

This approach is greatly different from that of Western firms in their multi-domestic strategy or globalization strategy in the second and third stages of overseas strategies respectively. Their multi-domestic strategies put an emphasis on the 'downstream activity', namely, marketing of their standard products according to the local marketing practices. Their globalization strategies aim at marketing in the world taking advantage of their transcendental technologies despite differences in values of individuals or living patterns of the local people. On the other hand, strategies taken by the Japanese firms at the third stage of development focus on 'upstream activity', such as R & D and mass-production, as well as sales and recruitment of best local staff. In so doing, the Japanese firms are

obliged to take into account values underlying the local culture, and in particular, values to respect people. By these policies, Japanese firms try to achieve a grand dream of vitalizing the entire corporate groups encompassing their head offices and overseas subsidiaries.

For the attainment of their business objectives geared to long-term survival and growth of their entire corporate groups, Japanese firms put relatively less emphasis on short-term financial returns than on building long-term trust relationship with people all over the world. Tom Peters<sup>4)</sup> points out the patient attitude of Japanese firms in building human relations, and attributes their success in China to the fact that they open representative offices in many cities disregarding profits in the beginning, show their presence, learn Chinese language and do business according to the Chinese way. Akihiko Otsuka<sup>5)</sup>, president of Otsuka Pharmaceutical Co., Ltd., which enjoys an established reputation for over-the-counter drugs and various tonic drinks, emphasizes that the company attaches importance to contributing to local societies and disregards short-term profit. He says, 'Maximization of profit is not the objective of our company's globalization. Our overseas operations sometimes show losses in terms of yen. But we think it serves our purpose if they make a contribution to the health of the local communities. I have a view that if our products contribute to the betterment of societies, they will bring benefits to our company in the long run.' Ryuzaburo Kaku<sup>6)</sup>, president of Canon Inc., a top manufacturer of cameras in Japan, says, 'We decided to invest in France based on the idea of co-existence, to bring benefits to both Canon and France. We are enjoying good reputation in China as well. Although many Japanese firms operated in Tianjin and Zhanjiang several years ago, only Canon still remains to operate there. I discuss things thoroughly with Mr. Wang Jen and Mr. Gu Mu, upper level officials of the Chinese government. Although Canon operates based on the principle of capitalism, we work in China for the benefit of Chinese people. I have come to think that people are the same anywhere no matter what kind of political systems they may have.' He also stresses the importance of building networks of reliable people irrespective of differences in political systems.

### **1-3 Factors Promoting Globalization Strategies**

#### **1-3-1 Inevitable Choice for Japanese Companies**

Recent deployment of globalization strategies of Japanese firms is accelerated by 1) the unprecedentedly severe pressure of structural changes occurring in the environment (such as global technological innovations in information and transportation, economic emergence of NIES and ASEAN countries, political and economic transformation of socialist countries, and strengthened correlation between global political and economic situations) and 2) strong desire of Japanese firms to survive and grow. At the present moment, the number of Japanese firms operating in the U.S. is estimated to reach 2,000, and altogether, over 10,000 Japanese firms are operating in 130 countries around the

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4) Peters, Tom; *Thriving on Chaos*, pp. 124-125 MACMILLAN, 1989.

5) *Ibid.*, (7) Vol. 31 No. 2.

6) *Ibid.*, (5) Vol. 30 No. 5.

globe. In some firms, overseas operations including overseas subsidiaries have grown larger than their operations in Japan. While some of them opt for starting overseas operations to grow further by taking advantage of structural changes in the world, a majority of them are obliged to do so to keep surviving.

In Japan, having suddenly become the greatest creditor nation in the world as a result of the yen appreciation, a glut of money, especially in financial institutions, has become apparent in 1986—1989. Because of this, foreign investment has become an inevitable course for Japanese companies to take in order to keep growing. Gentaro Kawase<sup>7)</sup>, president of Nippon Life Insurance Company, the largest life insurance company in Japan, states, 'A life insurance company basically operates in the country of its origin. Investment in Japan, however, has reached its limits, and as a result, 20% of our fund for investment is invested overseas, which we would like to increase to 30% in near future.' He stresses that globalization policy is inevitable for the firm to survive and grow. The firm has already established 7 offices and 12 locally incorporated firms abroad to facilitate investment there. Takahide Sakurai<sup>8)</sup>, president of The Daiichi Mutual Life Insurance Company, the second largest life insurance company in Japan, also explains that increased amount of financial assets of individuals has made policyholders of life insurance seek capital gains, and that life insurance business is obliged to invest overseas to keep growing. He says, 'There is a general shift from domestic investment to investment on a global scale. People are no longer satisfied with income gain alone. They want to receive capital gain as dividend. Currently we invest overseas 20% of our fund, although there is a risk of currency exchange loss.' Banks, too, find it inevitable to launch new operations in order to survive and grow under the pressures of rapid liberalization, deregulation between banks and securities, and government policy. Yasushi Komatsu<sup>9)</sup>, president of the Sumitomo Bank Ltd., expresses the strong desire of his firm under the pressure of structural changes: 'Our company participated in the equity of Goldman Sacks by acquiring 25% of its shares in order to cope with the deregulation between banks and securities. By this move, we expect to introduce expertise of securities business and open a new horizon.'

Manufacturing sector, too, is urged to start overseas operations. In 1986 in the middle of rapid increase in the value of the yen, it was a matter of urgency for Akebono Brake Industry Co., Ltd., a manufacturer of automobile parts, to start overseas operations, and the desire to grow even in the adverse wind and the sense of crisis incited by the wind did not allow the firm to worry about profitability. Yasusada Nobumoto<sup>10)</sup>, president, says, 'Our company cannot survive with the exchange rate of 150 yen or 160 yen to the dollar. Some customers (automakers), demand us to reduce prices by 3 to 4% per year, but our profit from the strong yen is only 1.1%. If automakers produce overseas, we are obliged to follow suit. For the moment, achieving a *cumulative surplus profit*

7) *Ibid.*, (6) Vol. 30 No. 6.

8) *Ibid.*, (6) Vol. 30 No. 6.

9) *Ibid.*, (5) Vol. 30 No. 5.

10) *Ibid.*, (2) Vol. 30 No. 2.

*within five years* is left out of consideration. We are urged to start overseas operations because of the exchange rate. We have no leeway to worry about profitability now; we will worry about it after going overseas.' Such pressure for starting overseas operations is applied to electronic components and materials manufacturers alike. Keizo Sonoo<sup>11)</sup>, president of Toda Kogyo Corp., which produces magnetic powder for magnetic tapes in Hiroshima, explains that the firm is in a difficult situation of not being able to start operations overseas despite the necessity. He states, 'Overseas demand accounts for 70% of all the demand for magnetic tapes. Sony and Colombia, our customers, have production facilities in the U.S., to which we are exporting magnetic powder. It is difficult for us to produce there because it does not pay. We need expensive custom-made equipment, we have no advantage of utilizing, say, liquid wastes, a lot of care is needed to prevent pollution, and worst of all, tape manufacturers do not guarantee that they will place orders on us, as car manufacturers do to the parts suppliers.' It seems that producers of electronic parts and materials are in more difficult conditions than automobile parts manufacturers at least as far as overseas operations are concerned. Large electric appliance manufacturers, however, are operating overseas making the optimum use of management resources even under the severe conditions. Katsushige Mita<sup>12)</sup>, president of Hitachi, Ltd., explains his intention of utilizing most efficiently the management resources available in the world, while admitting the fact that his firm is forced to expand its overseas operations due to the pressure of the stronger yen as follows: 'Trade conflicts originate primarily in the huge trade surplus of Japan. To mitigate the situation, our company is strongly promoting shifting production of those products which have been exported on a large scale to local production. We are producing electric home appliances, automobile parts, computers, and semiconductors in the U.S., and electric home appliances and semiconductors in Europe. We produce in Southeast Asia those products which have lost competitiveness due to the pressure of the yen appreciation.'

Construction industry, too, is faced with the necessity of developing new globalization strategies. Yasuo Satomi<sup>13)</sup>, president of Taisei Corporation, one of the largest general contractors, explains the situation which necessitates his firm to come up with entirely different strategy than before. He says, 'There was a sharp drop in foreign orders received in 1987, from 100 billion yen level to 50 billion yen. The yen appreciation has encroached the competitiveness of dollar-quoted overseas construction projects seriously. The role we will have to play from now in projects in industrialized countries is CM (construction management), that is, to put up buildings cooperating with overseas construction companies, as well as to acquire real estates using our own fund.' Taisei Corporation started employing around fifty foreigners every year from fiscal 1989, and is reported to have a plan to increase their foreign employees to occupy ten percent of all the workforce by the year 2000.

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11) *Ibid.*, (11) Vol. 33 No. 2.

12) *Ibid.*, (4) Vol. 30 No. 4.

13) *Ibid.*, (6) Vol. 30 No. 6.



### **1-3-2 Facing Up To the Reality of New Tide**

Under the ongoing drastic changes in the world's political, economic, social and technological conditions, many Japanese firms are obliged to take major turns in their globalization strategies. These changes, now forming the global tide, do not seem to lessen their pressure. This reality must be clearly understood by the managers. Hajime Tamura<sup>14)</sup>, former Minister of International Trade and Industry, gives an account of the necessity of globalization and the current status of the Japanese economy from a macroscopic viewpoint: 'Globalization is a major tide of the world economy which poses an important challenge on everybody. Globalization of the Japanese economy has been progressing steadily since the Plaza Accord of 1985, and foreign direct investment of Japan marked 50% increase in 1987 and 88 over the previous years. On an intermediate- to long-term basis, the ratio of overseas production of Japanese industries is estimated to approach that of the U.S. industries (18%) and West Germany (17%).' Minoru Masuda<sup>15)</sup>, president of the Japan External Trade Organization (JETRO), indicates that the capital goods provided by Japanese industries have become an integral part of the world's economy, to the extent of being considered as a requirement in building a new factory in the U.S.: 'To eliminate the trade imbalance, what appears to be an excessive import promotion is required. Now a lot of capital goods and high-tech products are exported from Japan to be used in factories there. For example, many new factories established in the U.S. are equipped with Japanese robotics and machine tools to compete well with EC nations.' Tan Chin Nam<sup>16)</sup>, Director General of the Economic Development Board of Singapore points out that, from a macroscopic viewpoint, the interrelationship of the world in political and economic aspects will be strengthened into future. He says, 'The world of today is definitely different from what it was before. What happens in Japan influences on the U.S., and what occurs in the U.S. influences the whole world: countries are more strongly interrelated than before. Whether integration of EC market in 1992 may lead to protectionist movement or not, the world, I believe, will eventually become more closely knit.' Recent development of globalization strategies of Japanese firms, which is caused by mutually related rapid changes in the world economic environment on one hand and strong desire of the firms to survive and grow in these turbulent times, will increase its speed as the speed of changes and the tightness of their interrelationship will increase.

## **2 Globalization Strategy Based on Competitive Advantages**

### **2-1 Formulation Process of Globalization Strategy Based on Competitive Advantages**

A company adopts a globalization strategy based on its competitive advantages to maintain its competitive position in this world of uncertainty and changes by making most efficient use of an optimum combination of 'men', 'material', 'money' and 'informa-

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14) *Ibid.*, (10) Vol. 32 No. 2.

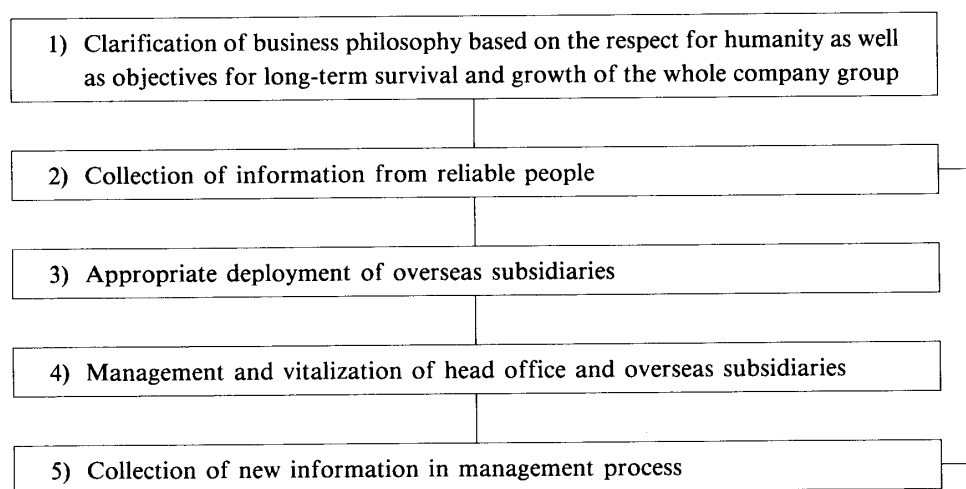
15) *Ibid.*, (11) Vol. 33 No. 2.

16) *Ibid.*, (10) Vol. 32 No. 2.

tion' available in the world and by seeking for business opportunities from a global viewpoint. Kazuo Wada<sup>17)</sup>, president of Yaohan Department Store Co., Ltd., which had been deploying shops in Southeast Asia most vigorously among Japanese GMS, established in 1989 the headquarters of the Yaohan International Distribution Group in Hong Kong, in order to obtain a good grasp of the entire business of the firm from a global viewpoint. He states, 'The idea of the 'head office of Yaohan Department Store' has a limit in itself when the potential of the overseas business is becoming so great. So, I have made the office in Hong Kong the headquarters of the world operations: The headquarters in Hong Kong is the major shareholder of Yaohan Department Store Co., Ltd. Now I am based in Hong Kong and visit Japan occasionally. I will build a guest house in Hong Kong, and I will view Japan from Hong Kong.' There will be more Japanese companies which will move their head office functions abroad so that they may prepare strategies for competitive advantages from a global viewpoint.

A company follows the following process in formulating a globalization strategy on the basis of competitive advantage: 1) Clarify business philosophy which attaches importance to respect for humanity, as well as long-term objective of the entire corporate group for surviving and growing; 2) collect information on conditions both inside and outside of the firm from reliable people; 3) plan and implement deployment of overseas subsidiaries based on the business philosophy and objective clarified at step 1) as well as on the information collected at step 2); 4) vitalize the head office and overseas subsidiaries through management activities; and 5) feed back information newly obtained in the vitalization process to modify and enrich original information, rearrange deployment of overseas subsidiaries, and modify management methods in order to vitalize them. The entire process is indicated in Fig. 4-1 below.

**Fig. 1 Formulation and Implementation Process of Globalization Strategies of Present Japanese Firms**



17) *Ibid.*, (11) Vol. 33 No. 2.

Vitalization of the head office and overseas subsidiaries requires first to define the business philosophy based on the respect for humanity. It is because ways of thinking, values, legal and other systems vary from country to country and from region to region, and it is respect for people and their search for happiness that should underlie the management. Kazuo Wada, president of Yaohan, mentions, 'There are many religions in Singapore, namely Islam, Buddhism, Hinduism, and Christianity. I believe that every religion, after all, is the same. Every religion is wonderful, pursuing happiness of people. I tell the employees that they should respect each other's religion. When one has heart to respect other people, one takes good care of one's customers as well.' He emphasizes the importance of respect for people, which applies to any country and any religion, and that it is an important attitude leading to customer-oriented services of retail business.

Next, it is necessary to clarify that the long-term survival and growth of the entire company group is an overriding goal of business management. Japanese companies invariably has this goal, in which personal goals of the individuals forming the companies are incorporated. It is the thinking of those people — that a company is not a place of production alone but is a place of living<sup>18)</sup> — that has been sustaining the growth of Japanese companies. Short-term financial gains as viewed from the standpoint of shareholders, which is an important part of business goals of Western firms, is not identified as a goal of Japanese business management. This goal of the Japanese management, therefore, may be difficult for people from other cultures to understand. To help them understand this point requires Japanese firms to explain, grasping every opportunity, that long-term survival and growth of the firms will eventually bring benefit to their employees. Clarification and constant effort to communicate the goal to the people will orient the head office and overseas subsidiaries into the same direction, even if individual subsidiaries may have some differences in detail.

In order to realize the business goal and philosophy in companies located in foreign cultures, it is essential that appropriate information be gathered from reliable local people who are living there. Such information includes that on the people as well as that on various systems in which the people's ways of thinking are reflected, such as distribution system and financial system. In general, matters which can be standardized and matters pertaining to natural sciences are understandable to any people around the globe, yet those about people are difficult for them to understand. Books and mass media cannot fully elucidate what underlies the values and thinking of the people; reliable people who live there can. In any country, those who contemplate things deeply have a comprehensive grasp of information and see people's values and thinking, including what is hidden underneath the surface, from a global viewpoint. A good example is Chinese ethnic groups living in Southeast Asia. Tadashi Kume<sup>19)</sup>, president of Honda Motor Co., Ltd., explains his belief in reliable Chinese people: 'In Asia, our operations mostly take the form of joint ventures, especially with Chinese partners. They are very reliable because they have strict business management concept. When their judgement differs from that of ours,

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18) Shimizu, Ryûei; *The Japanese Business Success Factors*, pp. 4–5, Chikura Shobo, 1989.

19) *Ibid.*, (11) Vol. 33 No. 2.

they clarify their position thoroughly.' He adds, 'In Asia, we get most of useful information from influential Chinese people. They make full use of information obtained from their customers, directors, and friends, using well-developed information network.'

The next thing to be done is to work out a rough but concrete plan to utilize available resources of men, materials, money and information in the most efficient manner. A rough deployment plan of the resources is made from physical and financial viewpoints. M.E. Porter<sup>20)</sup> defines globalization strategy as strategy to secure international competitive advantage by either concentrating activities global or coordinating dispersed activities or both of them. While Porter's concept of concentrating activities and coordinating dispersed activities is an important concept from the viewpoint of economics, i.e. the most physically and financially efficient use of management resources available in the world, to design the most efficient system in a strict sense from the beginning is not possible due to lack of information. Therefore, overseas subsidiaries to be engaged in production, marketing and R & D must be established aiming at the achievement of such an ideal system in long term. It involves implementing what is possible of a plan in a term, then, using information obtained from that implementation, refining the plan for the next term and implementing it, rather than establishing and implementing a complete system from the beginning.

## **2-2 Significance of New Globalization Strategies — for vitalization of the whole group**

For a Japanese company to deploy globalization strategy for competitive advantage, it must be able to utilize people, among all factors of management, in the most efficient manner. This is especially the case now, when the presence of Japanese companies, which has been growing at an accelerated rate, has started to cause conflicts with people in different parts of the world, and there is a necessity to help other people understand Japanese companies to get their cooperation and hard work. This requires not only an optimum physical deployment of people but also energizing them. Here, optimum physical deployment of people refers, for instance, to planning the location of a research laboratory in order to facilitate recruitment of the most excellent talents, and choosing a country for locating a plant used to produce standard products which requires abundant source of good-quality and relatively low-cost labor. Deployment of overseas bases based on such criteria as brilliant intelligence, high levels of skills, and low labor cost alone cannot achieve the highest efficiency on a global basis; the entire group including both overseas subsidiaries and the head office must be vitalized. It is to be remembered that the origin of the company profit lies in creativity exhibited by all the employees. Only when the entire group is vitalized, morale of the employees enhanced and their creativity displayed, the competitively advantageous position of the company is secured.

A great amount of information becomes available as a company defines its business philosophy and business goal, plans an efficient deployment of management resources, and manages the head office and its overseas subsidiaries. This information, which is

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20) Porter, M.E.; *Ibid.*, pp. 28-29.

obtained in the process of strategy formulation and implementation is very important, and will be used to modify and expand the original information held by the company. Kazuo Wada<sup>21)</sup>, president of Yaohan, who has firm trust in Chinese people in Southeast Asia, attaches importance to information which arises from business relationship and says, 'I make much of what I hear from others, especially what I hear during business talks. When a business grows, a proposal for joint work is likely to come about. A piece of land we acquired in Penang used to be under the management of a bank. We got the information about the land during a talk with the bank people.'

As indicated above, globalization strategies of the present Japanese firms at the third stage of development are different from those of the Western firms as well as from those of Japanese firms before 1980. A new globalization strategy of a Japanese firm aims at inducing creativity and challenging spirit of every employee of the entire group, as well as vitalizing the whole organization.

### ***3 Business Philosophy of Japanese Companies for Globalization***

#### **3-1 Necessity of Business Philosophy based on Respect for People**

A company trying to deploy a globalization strategy to gain competitive advantage must, first of all, clarify its business philosophy based on respect for people. Respect for people forms the foundation of business goal of Japanese firms — long-term survival and growth of the company. When a company indicates its business philosophy based on respect for people, which can win the sympathy of the people from foreign cultures, the company can excite their challenging spirit, have them display their creativity and vitalize the whole company. Here, respect for people refers to a positive attitude to support protection of human rights and pursuit of happiness of the parties concerned inside and outside of the head office and its overseas subsidiaries. A company lacking in this attitude is most unlikely to survive the present-day international society on a long-term basis.

Objectivity and universal validity of modern natural sciences have been supporting the Western multinationals in deploying their global operations as well as the Japanese firms, more recently, in operating abroad by bringing their production facilities and technologies there. But such natural scientific approach, rationalistic thinking or understanding methods cannot vitalize people. Something that appeals to the people's heart should underlie a globalization strategy. That something is the respect for people and pursuit for human happiness, which should win the sympathy of people with any cultural background. The success of aforementioned Yaohan in Singapore, where Confucianism, Christianity, Hinduism, Islam, and Buddhism exist together, is a case in point. Yaohan places pursuit of human happiness, endorsed by the idea that 'every religion is the same', as its top-most philosophy. To respect independence and human rights of all the groups concerned in the world as well as to secure and promote their happiness is a prerequisite of a global company.

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21) *Ibid.*, (11) Vol. 33 No. 2.

### 3-2 Practice of Creditability Transactions in Japan

In the author's opinion, there are three types of transactions conducted in the world: cash transactions, in which profit is certainly secured for each transaction; credit transactions, in which profit is secured within a period stated in the predetermined conditions; and 'creditability transactions', which produce profit in the long run through multilateral and long-term relationships, although individual transactions may not be always profitable.

Cash transactions are conducted under very insecure conditions. A typical example is transactions conducted by a caravan of travelling merchants in a market located in a desert: the seller offers his goods for cash to make sure that the sale is profitable, just in case the buyer disappears together with the next sandstorm. Credit transactions, which are carried out when certain conditions — natural, political and otherwise — are satisfied, are the most common style of transactions in present capitalistic countries. 'Creditability transactions,' in contrast, are very unique practices observed in Japan, as indicated by the following characteristic expressions and words, hardly translatable into English: '*Konkai wa naitekure* (Can't you accept these severe terms just this once?)'; '*Dango* (prearranged bidding)'; 'the logic of *kashi-kari* (give and take)'; '*Soko o nantoka* (I know it is too much to ask, but...)'; and '*Yoroshiku* (I leave it entirely to your discretion)'. These commercial practices date back to the Edo Era when the society was very stable under the feudal government system, presumably originating in the lending of money by Osaka merchants to feudal lords without expecting an immediate return.

The creditability transactions are not always conducted in a one-to-one relationship. To illustrate, a person A transacts business with a person B. A need not necessarily gain profit in this transaction. It is sufficient that B introduces his reliable friend C to A, and further C introduce his reliable partner D to A. Transacting business with B, C, and D, A can make money in multilateral and in long-term ways. Among them no clear and objective rules about transactions exists. It suffices if B, C, and D feels something favor toward A.

In the above example, A does not gain direct benefit out of the transaction with B, but he expects that he will gain benefit in the long run if this loan-debt relationship with B creates and deepens the reliable relationship with B, or indirectly, with C. Referring to a sales contact made by a computer manufacturer which had not had transactions with his firm before, Keiichiro Takahara<sup>22)</sup>, president of Uni-Charm Corporation, a top producer of sanitary napkins and paper diapers in Japan, says, 'I thought their price was quite reasonable, but I didn't buy the machine from them. Instead, I decided to find out if any manufacturer with which we had had transactions before could provide a similar product with similar conditions. We live in a society of *giri* and *ninjo*. We make much of a long-established relationship.' He placed the long relationships with other firms ahead of an immediate profit from one transaction. By way of illustration, when an owner of a building asks a construction company to accept his terms this time, he implies that although his order is not very profitable for the company, he will place a more profitable one with it the next time or that he will someday introduce the company to another owner

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22) *Ibid.*, (13) Vol. 34 No. 2.

with whom he is acquainted.

Although this mentality is readily understandable to the Japanese, it is not to those from other cultures. It is rooted deep in the Japanese culture of groupism and the spirit of cooperation. The contribution this mentality makes to Japanese companies of today is great: harmonious labor relationships; high efficiency of affiliated companies; stable business relationships based on cross-holding of company shares; prompt decision making by top management, etc. These systems form an integral part of the values underlying the business philosophies of Japanese companies. But one must realize the possibility of causing misunderstanding and a head-on conflict if one brings this mentality into foreign cultures as he globalizes his business.

Even in Japan, a great conflict may result from a credibility relationship if an extremely strong party appears and conducts an unfair transaction, there being no explicit rules. This is exemplified by a company which having accumulated wealth by taking advantage of skyrocketing land prices does not share its wealth fairly with its employees. There is a concern that a strain thus generated may bring about an instability in Japanese companies as well as Japanese society as a whole.

Meanwhile, credibility transactions have many advantages as well. The logic of *kashikari*, for example, supports innovative and prompt decision making by the top management of Japanese firms. A competent company president in Japan sees to it that he puts other directors under debts of gratitude by doing them favors and maintains an atmosphere in which the directors feel indebted. When he conceives a proposal, he spends time in informal talks with directors behind the scenes to lay the groundwork. After that, he lets the proposal pass a formal meeting, such as a managing directors' meeting, when the time is ripe. By holding them under the debt of gratitude in this way, the president can preclude emotional objections and make decisions promptly. This also allows him to take the initiative in making innovative decisions.

In general, it is said that American managers can adopt Toyota's '*Kanban System*' (just-in-time system) easily, but not harmonious relationships among different sections. Let us assume that there is an automobile plant which has a problem in door fitting. A close study of door frames, sealing materials, hinges, etc. has clarified that the incoming inspection of sealing materials conducted by the Procurement Section was insufficient. In an American setting, what ensues would be to conduct a thorough investigation into the situation and hold the inspector in charge in the Procurement Section responsible for his neglect. Whereas in Japan, when the cause of the problem is roughly identified, the production manager would convene everybody in one place to call their attention to the problem to get their cooperation. He would not have the individual take the responsibility for the problem. It is because he knows that if he does there is a danger of everybody in the section turning his back on him in case he is transferred to the Procurement Section. As a result, cooperation between sections is available. This is how the idea of credibility transaction is conducive to enhancing communication and cooperation among sections and to strengthening the competitive power of Japanese firms.

### 3-3 Traditional Business Philosophy of Japanese Firms

Japanese firms which pursue globalization can be divided into three groups according to the type of business philosophies held by them as follows:

- 1) Those which retain Japanese traditional values and the concept of 'creditability transaction' which existed before 1970's and express their philosophy as 'contribution to the nation and the society' and 'harmonious spirit';
- 2) Those which stress M. Weber's concept of 'free from value' (Wertfreiheit) by putting up the philosophy of 'creativity', 'technology' and 'R & D', keeping away from the traditional Japanese values out of confusion of globalization after 1985; and
- 3) Those which stress 'welfare of mankind', which is a value acceptable to peoples of different cultures in the world.

Historically, business philosophies of Japanese firms evolved from those based on familism which used to be observed typically among merchants in the Edo Era, through those which gave top priority to national interests as held by government-owned corporations in the Meiji Era, to more rationalistic philosophies as observed among companies incorporated into *zaibatsu* in the Meiji, Taisho and Showa Eras. During the high economic growth period which started around 1970, modernization, technological innovation and social responsibility were added to their philosophies. As a result, it is inevitable that firms having long histories preserve these old concepts in their philosophies as they pursue their paths of globalization.

Life insurance companies are a good example. While they are pushing forward their overseas operations utilizing their strong financial bases, their business philosophies are invariably expressed in long sentences as they used to be, using such words as contributions to the nation, the industry, and wellbeing of their employees. To cite an example, Nippon Life Insurance Company, the largest life insurance company in Japan, has the following business philosophy in which contribution to the insured and the general society is stated clearly and in detail.

1. We shall attach the greatest importance to providing insurance policies truly required by various types of people, offering rich services and fulfilling sincerely compensation liabilities for the insured.
2. We shall utilize the insurance fund properly and endeavor to promote social welfare in general, realizing the public nature of the industry.
3. We shall enhance the productivity of management as well as the development in every aspect of our business activity with creativity supported by wisdom and action backed by confidence.

Meiji Mutual Life Insurance Company, which is a member of Mitsubishi group, has the following business philosophy:

As a pioneer of the life insurance company, we shall

1. lead in creating a new welfare society,
2. put our heart and soul into serving the insured, and
3. grow into a group of creative people.

Thus, while being carefully laid out and comprehensive, business philosophies of life insurance companies still lack a global viewpoint. Tokyo Marine and Fire Insurance Co.,



Ltd., the largest nonlife insurance company, has a philosophy consisting of four clear and simple elements: 'Expansion of business scale'; 'Development of high value-added nonlife insurance products'; 'Enhancement of profitability'; and 'Human resource development'. In the company, a five-year plan called TOPS (Total Protection and Service) is now under way. Its business philosophy is very clear and short, and yet a global perspective is missing like in the cases of life insurance firms. Meanwhile, Dai-ichi Kangyo Bank, Ltd., which prides itself on the largest fund volume in the world, has a business philosophy which is one step forward in terms of globalization: 'To provide the best services to the nation'; 'To offer abundant and good-quality fund to companies in general'; 'To contribute to the development of international management as a world-class bank'; and 'To create an attractive workplace based on respect for people'. It seems that financial institutions having long histories have not outgrown Japanese values, perhaps because of their traditions weighing heavy upon them.

Harmony of people and contribution to the nation are also emphasized in the philosophies of manufacturing firms with long histories. Kanebo, Ltd., one of the oldest spinning firms in Japan, which has diversified its operations into cosmetics, pharmaceuticals and foodstuffs, raises three fundamental elements of management spirit: 'Humanitarianism with love and justice'; 'Scientific rationalism'; and 'Services to the society and the nation'. Kyowa Hakko Kogyo Co., Ltd., which excels in brewing and distilling technology and produces and sells varieties of liquors and pharmaceutical products, has a business philosophy which dates back to the time of its inception: 'Everybody shall fulfill his role by helping each other and using his ingenuity.' A new trend has appeared among manufacturing firms which have started their globalization paths; they are increasingly trying to keep away from traditional Japanese values, attaching a special importance to creativity and innovation. Their business philosophies are expressed by simple and clear words. Shiseido Co., Ltd., one of the oldest and the largest, as well as the most prestigious cosmetics producers in Japan, puts a new philosophy of 'Beauty and health' along with its traditional 'Discovery and creation of new values'. It has also a clear business goal — achievement of sales of one trillion yen and 25 % increase of overseas sales. Kirin Brewery Co., Ltd. has also a philosophy of traditional 'Quality first and stable management' coupled with 'Creation of values' in the pertinent fields of health, taste and culture.

### **3-4 New Business Philosophies of Japanese Firms**

Japanese firms are coming up with new business philosophies breaking away from their traditional values. And there is an increasing trend of choosing brief expressions as CIs and slogans are coming into fashion. Examples of business philosophies which give an emphasis to technologies include 'C & C with IC' of NEC Corporation, which is one of the most well-known communication equipment manufacturers, 'Kajima of technology' of Kajima Corporation, the largest general contractor in Japan, and 'Industrialization of construction' of Daiwa House Industry Co., Ltd., which is putting a great deal of effort into resort development. Examples of those which attach importance to the market include 'User's & Unisys' of Nihon Unisys Ltd., 'For the Customers' of The

Daiei Inc., and 'Car Life Industry' of Nissan Motor Co., Ltd. It is to be noted, however, that the internationalization aimed at by these firms is still limited to the extent of abovementioned 'free from value' concept. More specifically, 'R & D-oriented, international company' — a slogan of Takeda Chemical and 'Internationalization of all activities — research and development, production and marketing' — business philosophy of Dainippon Ink & Chemicals, which is aggressively pursuing M & A abroad, still lack in the perspective of value systems of different people. Many Japanese firms operating on a global scale remain at this level.

It is also true, however that an increasing number of Japanese firms refer to the respect for people around the globe in their business philosophies, keeping in mind that their cultures and values are uniquely different from each other. For example, Otsuka Pharmaceutical Co., Ltd. expresses promotion of health of mankind in its philosophy: 'Otsuka creating new products for better health worldwide'. 'Coexistence of all the people around the world' of Canon Inc. and 'Creation of joys of life in the living of all the people in the world' of Yamaha Corp. (the largest musical instruments manufacturer in Japan) are two of many philosophies in which respect for people is stressed. These philosophies are expected to win empathies of people in different countries. Honda Motor Co., Ltd. puts up a business philosophy — 'True globalization for people and societies around the world'. Tadashi Kume<sup>23)</sup>, president of Honda, says, 'Honda maintains its corporate culture no matter where it operates, in Asia, Europe or elsewhere. Be it Thailand, or the U.S., approaches and concepts of management of people are basically the same.' He also stresses that the business philosophy of his firm is understood and accepted by people of different countries.

As described above, Japanese firms pursuing globalization with an increasing speed have not reached the stage where their CIs and business philosophies emphasize 'respect for people, and pursuit of human rights and happiness', they are steadily approaching the stage. Firms which have business philosophies of type 1) and type 2) described in 4-3-3 only stress internationalization and respect for people all over the world in their guiding principles. It is hoped that these firms will, in near future, advocate respect for people in their business philosophies as they continue deploying their globalization strategies.

#### ***4 Collection of Information Regarding Mentality of Local People***

##### **4-1 Time Lag of Information Generation**

In formulating and implementing global strategies to gain competitive advantage, it is essential that information is gathered not only before implementation but also in the middle of implementation. Of special importance is information about subtle mental working of the local people concerned. In establishing a production base abroad, gathering information on the availability of infrastructure as well as that of human resources, legislature and country risks prior to implementation is a common practice. But infor-

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23) *Ibid.*, (11) Vol. 33 No. 2.

mation which becomes available after the plant is constructed and put into operation, such as that on people's behaviors thinking and ideas, is very useful for managing the plant, making decisions at the head office and vitalizing the whole company group. If it is an overseas research laboratory that is established, information obtained in the management process before a result of R & D is produced is as important as information on the R & D result itself. It is because results of research activities depend more on creativity of the researchers than on facilities and equipment available in the laboratory. Information obtained in the management process includes that on subtle mental working of the people working there along with that on natural scientific knowledge and high levels of intelligence.

Generally in business management, there is a time lag between the availability of information and that of money; when information comes your way, money doesn't, when money does, information doesn't. Immediately before establishment of an overseas plant and after starting of its operation, people of the home office as well as the local people involved are constantly exposed to new situations, in which they are surprised, amazed, rebel, or sympathize, actively combining information and generating new information as they try to understand them. People receive and generate a great amount of information, but money is not generated. When the plant goes on stream and starts turning out products with good quality management, money starts coming in, but there are fewer opportunities for people to get surprised or amazed, and therefore, fewer chances of their generating information. In the information-oriented society in which we live, information is more important than money, and reliable people who own and generate information are more important than information itself in a long perspective. Many Japanese firms move into China to gather information, based on their view that China will grow into a big market in future although it is not a lucrative investment at the moment. Susumu Okamoto<sup>24</sup>), president of Kanebo, Ltd., emphasizes this point by saying: 'Foreign markets provide very important sources of information. We have constructed a plant for producing stockings, which we believe will become our information base.' Tadasu Toba<sup>25</sup>), president of Ajinomoto Co., Inc., a world's well-known amino acid-based seasonings producer, also stresses the importance of collecting information in view of future profitability. He says, 'China has a fifty-fifty chance of moving into entirely different directions. No matter what hardships and difficulties we may have, we must establish an office there and start dealing with China.'

#### **4-2 Informal Information Obtained from Reliable People**

Types of information a firm needs to collect in globalizing itself concern ways of thinking and behaviors of the people living in the country where the firm is moving; they include those of value systems of the people there, both conscious and subconscious, habits and practices, and various systems including legal and political ones. Of particular importance is such information informally obtained from reliable people. Without this, over-

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24) *Ibid.*, (7) Vol. 31 No. 2.

25) Author's Interview of Mr. Tadasu Toba, July 24, 1989.

seas offices and research laboratories of Japanese banks and manufacturers, which will continue increasing, will not be able to function properly. For example, Japanese financial institutions trying to operate abroad must have a good understanding of how foreign counterparts evaluate the firms to which they provide loans, i.e. their criteria for financing. It is a common practice for Japanese banks to hold mortgages on the land of the firms to which they provide loans, and therefore, they do not attach a great importance to the evaluation of their financial statements. In contrast, American counterparts do not hold such mortgages, and instead, thoroughly conduct analyses on the financial statements of their would-be borrowers. The difference in practices results from differences in the Japanese values, which people are not aware of, and systems from those of Americans. Failure in understanding this difference would misguide these banks in evaluating firms. Recent failures of real estate investments in the U.S. and Australia, an earlier case of bad debt with a supermarket company in West Germany, failure of Ataka Sangyo's loan investment, as well as other failures in foreign investments, mergers and acquisitions by Japanese firms all resulted from their ignorance of values of foreign people concerned and differences in practices and systems based on their values. For firms seeking for M & A or to invest in foreign firms it is essential to get information on the ways of thinking and systems of the local people from reliable people. Financial institutions operating abroad are now trying to get information regarding company evaluation and various systems by hiring people away from local investment banks, acquiring local investment banks themselves, and in the case of Southeast Asia, by participating in information network of Chinese people.

Such information obtained informally from reliable people is also necessary for managing excellent people employed locally. For example, a Japanese firm which employs excellent local researchers for its research laboratory there has to know their complex feelings about employment by a Japanese firm, about their future, if they come to work there because of higher salary, better conditions available for conducting researches, or else, so that it may prepare proper arrangements to assure sufficient research results out of them. What the firm must do before employment is to obtain pertinent information from reliable researchers and engineers. Then, the firm can invite excellent researchers there to come to work for the laboratory by indicating generous research budget. It is necessary to win the confidence of the researchers by explaining to them that the top management of the home office gives priority to basic research results which would form the core of the technological base of the firm rather than short-term, profit-oriented results.

In this case, the minimum requirement for the firm, being a foreign firm, is to offer research facilities and budget which excel those of local firms, research institutes and universities so that it may attract the most excellent talents. It should not be very difficult for Japanese firms which have suddenly become wealthy as a result of increased value of the yen. To invest on research activities expecting to establish an access to highest levels of information is a more natural management decision than to invest on real estates expecting short-term profits. In making decisions managers of firms opting for globalization must always keep in mind the following order of priorities, i.e. brains > information < money. As stated previously, Takeda Chemical Industries, Ltd. is steadily setting up

arrangements for simultaneous development of products in different parts of the world. The firm successfully hired Dr. John Morgan, who, as a medical doctor, used to conduct clinical trials of new drugs in F. Hoffman-La Roche Ltd., a leading chemical and pharmaceutical company in Switzerland. It also established a solid channel of human exchange creating new chairs of cytology and anatomy in the Harvard Medical School in the U.S. Yoshimasa Umemoto<sup>26)</sup>, president of Takeda, explains the importance of creating informal channel of people, collecting information on legal and other systems and taking appropriate actions and says, 'Development of a drug takes ten years and ten billion yen. When the development of a drug takes shape in laboratories, we apply for approvals for production in the U.S., Germany and France at the same time and start selling as soon as approvals are obtained for early recovery of increasing R & D costs. We need to develop new products and obtain approvals for them separately in each country because pharmaceutical laws differ from country to country.'

#### 4-3 Essential Understanding of Different Cultures

In gathering information in various countries and regions, one must recognize that thinking, values, practices and systems there are different from those in Japan. It is wrong to assume that people think in the same way everywhere. One may make gross mistakes if one judges things in China and Korea by applying Japanese yardsticks expecting that people there and the Japanese share ways of thinking just because they share the same script. When the author asked a question to Koh Byung-Woo<sup>27)</sup>, president of Sangyong Investment & Securities Co., Ltd., about the validity of the general Japanese view of Korean people that they are more diligent than the Japanese, he answered as follows: 'Ways of thinking that govern Korean firms are different from those governing the Japanese ones. Japanese managers and employees do their best to execute their work perfectly no matter who is watching or not watching. In Korea, people are not trained that way. Perhaps it is because our racial characteristics are different. In Korea, those who stay back and work late are labeled to be small-minded. Broad-minded people are preferred. Those who are rough and can enjoy drinking with others are considered to be broad-minded. Broad-minded politicians may be acceptable, but managers and their employees should not produce poor-quality products with their broad mindedness.' While people tend to think that Koreans and Japanese are similar in diligence and other qualities just because both live in countries with Confucian influence, a closer study would reveal that they have many dissimilarities as well. Shin Ping Yao<sup>28)</sup>, vice president of Sampo Corporation, a leading home electronics manufacturer in Taiwan, points out the following regarding diligence and savings rate: 'Taiwanese people work hard but not as hard as Japanese people. Because of the Confucian ethics ingrained among the Taiwanese, thrift and saving money are prevalent. Savings rate here is higher than in Japan. Because of successive wars in China, all the Chinese people can fall back upon are their own good

26) *Ibid.*, (7) Vol. 31 No. 2.

27) *Ibid.*, (8) Vol. 31 No. 4.

28) *Ibid.*, (9) Vol. 31 No. 6.

health and money. People in Taiwan, especially Chinese, do not rely on insurances or governments. In Japan, you have a good social security system to fall back upon.' Mr. Shih, having graduated from the Graduate School of Keio University in Japan, must have experienced personally differences of values and behaviors of the people in Taiwan and in Japan. Apparently there are a lot of differences among countries with Confucian influence. Regarding observing a foreign country, it is advised that one should not pay an excessive attention to superficial phenomena, but gather information on the assumption that things must be different there, and identify similarities and dissimilarities. People's consciousness, established customs and habits, systems, values and religious beliefs, by nature, take a long time to change. No matter how real-time information may fly all over the world by TV, fax and other media, people's thinking and values are not influenced so fast, and therefore, fundamental differences between countries remain unchanged.

To sum up, a company choosing to deploy a globalization strategy must constantly strive to collect information from reliable, local people at stages before and after starting of its project implementation. If the company needs to employ highest-level brains for its overseas laboratory or its foreign investment office, information on what these people wish and think, and how best their capabilities can be utilized would be valuable. In this age of uncertainties, it is becoming increasingly difficult to globalize a business with 'free from value' concept and science and technological achievements alone. The necessity of networks of reliable people and gathering information on people's mental working is increasing ever faster.

## ***5 Globalization of Japanese Firms and their Decision-Making Criteria***

### **5-1 Criteria of Quality and Cost Competitiveness**

Japanese multinationals, which emerged later than those of the West, deployed their overseas strategies in the 1970's highlighting the use of most up-to-date production and distribution facilities. Unlike western counterparts, their primary focus was not marketing and sales activities which involved the local people's thinking. Christopher A. Bartlett<sup>29)</sup>, states that, because they had had little experience of operating abroad they (Japanese multinationals) did not choose the way to rival marketing capabilities and facilities established in each country by European firms. . . It was necessary for them to centralize control over the 'upstream activities' — such as product development, raw materials procurement, and production, by adopting a competitive strategy with an emphasis on cost advantages and quality assurance. Majority of Japanese multinationals produced standard products in their overseas subsidiaries by transferring the most advanced production facilities they used to use in Japan which enabled production without ingenuity of the local people, and naturally their main focus was on the attainment of materialistic goals such as higher quality, technological capability and cost competitive-

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29) Bartlett, Christopher A.; Building and Managing the transnational: The New Organizational Challenge, in Competition in Global Industries pp. 373-374 edited by M.E. Porter, Harvard Business School Press, 1986.

ness, which did not depend on the local people.

Retail business is a typical example. Their main criterion for determining overseas production bases and export destinations is cost competitiveness. Isao Nakauchi<sup>30)</sup>, president of The Daiei Inc., one of the largest GMSs in Japan, remarks, 'Retail prices in Japan are three times those in the west, and if this situation continues it is unavoidable that goods of NIES countries would flow into the market. We change our production bases flexibly according to prices. Although we have been culturing shrimps in Taiwan until recently, we do it now in paddy fields in Thailand. We switch from place to place seeking for the lowest costs, like from Taiwan to Singapore, then to Thailand, to Pakistan and to Africa.' Hajime Suzaki<sup>31)</sup>, president of Kotobukiya Co., Ltd., one of major GMSs in Kyushu, also attaches importance to the financial criterion, i.e. cost competitiveness. He says, 'Importation sources of goods are not and will not be fixed. They will constantly change seeking for lower costs. Taiwan has been replaced by Thailand as a source for rattan products. Sources for rice crackers, too, have been replaced by Thailand.' Hiroshi Ueda<sup>32)</sup>, president of The Seiyu, Ltd., which ranks third among GMSs in Japan and forms the core of the Saison Group, also lays stress on economic criteria with quality assurance as a precondition and states, 'We are ready to shift production sites from a country to another to secure cost advantages for tiding over difficulties associated with high values of the yen. Sources of raw materials and processing bases can be in different countries. Currently, we produce vinegar in Thailand, where production cost is low. Processing up to immediately before fermentation is conducted in Thailand, where the product-in-process is loaded on a ship, fermented and assured for quality during the trip to Japan, then the finished product is delivered to a Japanese producer for finishing.'

It should be noted, however, that gaining cost competitiveness is not the sole criterion for making decisions in overseas strategies. Daiei and Yaohan seem to have other motives in addition to cost advantages. Hidenori Futatsugi<sup>33)</sup>, president of Jasco Co., Ltd., a forth largest firm in the GMS sector, takes into account sales increase of the whole group and absorbing new knowhow along with cost competitiveness in making decisions on overseas operations. Referring to the criteria of the firm — quality and cost advantages, he mentions, 'We will consider purchasing goods from NIES countries positively, because they have come to be able to satisfy the requirements of our specs.' Regarding the aim of sales increase of the whole Jasco Group, he says, 'We have established stores in Southeast Asia because there we can utilize the knowhow we have accumulated in Japan,' and goes on to explain that the firm also operates abroad to absorb new knowhows, 'We acquire U.S. firms which are growing steadily to learn from their experiences of merchandizing and management in the retail business.' These examples indicate that the Japanese retail business is now expanding their criteria as their scales of operations increase and that they are not singularly aiming at overseas sourcing for quality and cost

30) *Ibid.*, (7) Vol. 31 No. 2.

31) *Ibid.*, (8) Vol. 31 No. 4.

32) *Ibid.*, (7) Vol. 31 No. 2.

33) *Ibid.*, (10) Vol. 32 No. 2.

considerations.

In the manufacturing sector, primary criteria for overseas production consist of production of standard products, stable quality and enhanced cost competitiveness. Takuma Yamamoto<sup>34)</sup>, president of Fujitsu Ltd., world's second largest computer manufacturer, remarks, 'We entrust our overseas subsidiaries with production of printed circuit boards with three to four layers, which are imported into Japan in the finished form, while at Fujitsu in Japan, we manufacture PCBs with thirty to forty layers. We have a policy of having products with keen price competition and requiring relatively low technological levels produced in NIES countries.' Katsutaro Kataoka<sup>35)</sup>, president of ALPS Electric Co., Ltd., a top general electronic component maker in Japan, explains the situation of his firm as follows: 'We are shifting our operations to NIES step by step in line with the concept of international division of labor. Shifting of production to NIES has been mostly completed for medium price-range radio-tape recorders, 14-inch color TV sets, electric fans, small refrigerators, and small microwave ovens.' Hitachi Ltd., one of the largest general electric equipment manufacturers in Japan, is another firm which has a strong intent of producing standard products and medium price-range products abroad which have lost cost competitiveness in Japan as a result of higher yen value. Katsushige Mita<sup>36)</sup>, the president, states, 'We are vigorously pushing ahead with local production programs for products which occupy large export percentages. In the U.S., home electronics products, automobile parts, computers and semiconductors are now produced, and in Europe, home electronics and semiconductors. In Southeast Asia, standard products and medium price-range products, which are no longer competitive if produced in Japan because of higher value of the yen, are produced.' Thus, it is common in the manufacturing sector to give priorities to standard products, stable quality and cost competitiveness in their judgement criteria for globalization.

## 5-2 Criteria of Supplementing Production and Technologies

Lower cost is not an only factor involved in overseas production of standard and medium price-range products. Many firms incorporate overseas subsidiaries into their global networking strategies. Akio Tanii<sup>37)</sup>, president of Matsushita Electric Industrial Co., Ltd., Japan's largest home electronics manufacturer known for Panasonic, its brand name, explains the globalization policy of his firm as follows: 'Our long-term target of sales breakdown is: domestic production 50%; exports 25%; and overseas production 25%. Those products which will form the core of our future business will be produced in Japan even if this means higher costs. We won't jump on overseas production simply because it is cost efficient with a short perspective. We will retain production of those products in Japan which will form the core of our business in addition to those of high technology.' Yutaka Kume<sup>38)</sup>, president of Nissan Motor Co., Ltd., the second largest

34) *Ibid.*, (5) Vol. 30 No. 5.

35) *Ibid.*, (4) Vol. 30 No. 4.

36) *Ibid.*, (4) Vol. 30 No. 4.

37) *Ibid.*, (4) Vol. 30 No. 4.

38) *Ibid.*, (4) Vol. 30 No. 4.



automaker in Japan, stresses the supplementary nature of the global network of his firm by saying, 'From now we must change our idea and start positively transferring our technologies to our overseas subsidiaries so that they may play an important part in our production system. Each of those subsidiaries may not be self-sufficient. We will have to consider ways to have them supplement each other, for example, a plant in Mexico supplementing another in the U.S., so that their capabilities can be integrated into a total system.' Even an integrated steel maker, in which overseas production is technically difficult, is deploying overseas subsidiaries to form a global network. Yasuhiro Yagi<sup>39)</sup>, president of Kawasaki Steel Corporation, the third largest integrated steel maker in Japan, says, 'We have acquired a plant of Kaiser Steel in California. Tubarão Steel Works in Brasil produces only up to semi-finished products. Slabs bought from Tubarão are then processed further in Kaiser. Along the West Coast is a market of 900 to 1,000 tons, and international prices of steel in the U.S. are high. Although it is difficult to export steel from Japan to the U.S. because of import restraint, slabs from Tubarão are treated within the framework of imports from Brasil.'

Such a supplementary relationship is developed not only for supplementing products, parts and semi-finished products, but also for supplementing technologies. Shigekuni Kawamura<sup>40)</sup>, president of Dainippon Ink and Chemicals, Inc., emphasizes the importance of securing the constant flow of technological information and knowhow which are generated only in its overseas operations. He states, 'Since ideas are generated in the production processes, production should not be shifted abroad entirely. Researches on application technologies should be conducted close to the market. In our firm, engineering development conducted in Japan is supplemented substantially by reports sent from our overseas production bases and research laboratories.' The author holds the opinion that the source of strong competitiveness of Japanese manufacturers lies in their production equipment and facilities developed by themselves incorporating the knowhow of the shop floor. Akihiko Otsuka<sup>41)</sup>, president of Otsuka Pharmaceutical Co., Ltd., also emphasizes the importance of technological supplementation along with that of materialistic supplementation. He explains the case of his firm: 'Our facilities networked around the world are supplementary not only in terms of products but in terms of technological inputs. Facilities in Thailand and Indonesia do not have much to supplement those in Japan and the U.S., the former being in their infancy to development periods. For example, babies' food used in the U.S. are produced based on the American dietary habit, and therefore, are not acceptable as they are in Indonesia. So, babies' nutritious food was developed in Indonesia using materials available there. And this knowhow was exchanged with that of nutritives for intubation feeding developed in Thailand.'

### 5-3 Criterion of Enhanced Creditability

If we go ahead with the idea of establishing global networks and strengthening

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39) *Ibid.*, (4) Vol. 35 No. 4.

40) *Ibid.*, (7) Vol. 31 No. 2.

41) *Ibid.*, (7) Vol. 31 No. 2.

supplementary capacities of their components, we arrive at a conclusion that individual overseas subsidiaries do not necessarily have to produce substantial profits. Winning better creditability of people around the world, rather than immediate return from individual projects, would become a stronger and more long-term objective of globalization. This idea indeed matches that of 'creditability transactions', a unique practice in Japan described earlier. President Akihiko Otsuka of Otsuka Pharmaceutical, which mainly produces over-the-counter drugs, attaches importance to this creditability enhancement. He states, 'Maximization of profit is not a target of our globalization. Sometimes, ostensibly rising profit is actually shrinking in terms of yen. But it serves our purpose as far as our operations are contributing to the health of the local communities we are serving.' Akito Naito<sup>42)</sup>, president of Rinnai Corporation, a top manufacturer in Japan of gas appliances, also regards a long-term objective of the global network to be most important. He says, 'Production volume in our overseas subsidiaries has reached 35% of that in Japan. Products are exported from those companies to third countries, for example, from Rinnai Korea to the Middle East, and from Rinnai New Zealand to Australia. We take a broader view of relationship between Japan and other countries. Current inflation in Brasil is so rampant that investment and production there tend to be regarded as simply not paying. But it is necessary to continue operations there from the viewpoint of surviving as a global company.'

In order to increase the sales of the whole company group through global networking and strengthened supplementary relationships among the overseas subsidiaries as well as between those subsidiaries and the head office, each subsidiary should promote marketing in its local area. Because if it depends too much on supplementing other markets, its production and sales would be fluctuated. Positive marketing activity such as sales promotion in a local area involves issues concerning consciousness and values of the people there, besides economic, product-related, and technological issues. Here lies the importance of creditability of the local people toward the firm, for it becomes a latent driving force for purchasing products from the firm. Hence the catchphrases of Canon and Yamaha mentioned earlier, i.e. 'Coexistence of the people around the world' and 'Creation of joys of life in the living of all the people in the world', respectively. Says Hiroshi Kawakami<sup>43)</sup>, president of Yamaha Corporation, 'As a culture-oriented company, we care for sensitivity. We install R & D facilities in different parts of the world to develop and sell products fit to the local markets. At the same time, we earnestly promote music activities, which mainly consist of music education and concerts. This is in part for demonstrating to the local people our dedication and enthusiasm toward music, and in part for expected creation of demands for our products in a remote, indirect way.' Yamaha is thus trying to tailor its activities in foreign countries to the consciousness and sensitivity of the local people, so that it may enhance their creditability for the company.

Various ways of deploying overseas subsidiaries on a global basis have been discussed: deployment according to economic criteria, such as securing procurement sources of goods

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42) *Ibid.*, (7) Vol. 31 No. 2.

43) *Ibid.*, (7) Vol. 31 No. 2.

as seen in the retail business, and enhancing cost competitiveness; deployment for shifting production of standard and medium price-range products to foreign countries, as well as for supplementing, and complementing production and technologies among overseas operations; and deployment for enhancing local people's creditability for the firm by matching its activities to their consciousness and values. Which of these ways is chosen depends on the business philosophy of each firm or personal philosophy of its top management. But the general trend of Japanese firms pursuing their globalization shows an apparent shift of weight from enhancement of production and technological capabilities to that of creditability of local people toward firms. Together with this trend increases the necessity of having the Japanese practices of 'creditability transactions' understood gradually by the local people concerned.

## **6 *Management and Vitalization of the Head Office and Overseas Subsidiaries***

### **6-1 Communication between the Japanese and Foreigners**

To assure long-term survival and growth of a global firm with maintained competitive advantages requires that its overseas subsidiaries, whose independence of management is respected, are vitalized with well-motivated employees, to say nothing of the fact that its head office organization is vitalized. And the head office and overseas subsidiaries, which are connected loosely by forming a network, must move toward the same direction on the whole. The head office can be vitalized by a good cycle of top management → business strategies → organization → products → environment → results → corporate culture → top management → .... For a rapidly globalizing firm to harmonize its direction with that of its overseas subsidiaries, it is necessary to develop sufficient communication between itself and the subsidiaries, as well as among the subsidiaries.

Significance of the word 'communication' seems to differ from country to country. In many countries, the word has a strong nuance 'to persuade', and the nuance 'to harmonize opinions', which is included in the Japanese sense of the word, seems to be weak. '*Ishin Denshin*' (direct communication from mind to mind, or telepathy) in the Japanese language cannot be expected in a foreign country. To the people coming from other cultures, things must be explained in a concrete manner. It must be explained to them that the objective of business management is long-term survival and growth of the firm and that this objective is valid because the firm is not only a place of production but also a place of living, which is an idea born out of the consciousness of members forming the firm. The 'logic of kashi-kari' found in decision-making processes and asking the other party to 'accept one's severe terms just this once' as in 'creditability transactions' — all these logics and practices which are tacitly agreed and accepted by the Japanese but appear strange to people from other cultures must be explained in every opportunity available using the languages, concepts, and logics which are understandable to them. But manuals which define concepts and logics in detail are prohibited, because it may hinder Japanese flexibility based on 'creditability transactions'. The languages which explain the sound frame are advocated.

Literal translation of Japanese words does not convey their meanings. Let's assume that a social scientist asks a question about mathematics to a mathematician. If the mathematician answers the question by using his own terms and concepts, he would not be understood by the social scientist. He must use words of social sciences. Communication to people from other cultures is analogous to this situation. It requires incessant, vigorous efforts, without which cross-cultural exchanges would not be possible, and vitalizing overseas subsidiaries, entirely impossible. In order to establish an interface between a society in which every work is clearly defined and contracted for execution and a society like that in Japan where work is carried out without clear definitions, a great deal of energy must be put into what appears to be a useless effort.

Personnel exchange programs are essential in establishing the abovementioned interface. These programs, which can motivate staff of overseas subsidiaries to endeavor to understand the Japanese ways of business management, include: appointing non-Japanese to directorship of the home organization; appointing a local person to the president of an overseas subsidiary; and having local middle managers participate in the decision-making process of an overseas subsidiary. As stated before, Sony, under its slogan of 'Global Localization', appointed in 1989 two foreigners to the directors of the head office — president of Sony Europe (a Swiss) and the vice chairman of Sony America (an American). By pushing ahead with localization of management, unique ideas of foreign people can be utilized in decision making in the head office and at the same time, local directors can be motivated for localization. Other Japanese firms including C. Itoh & Co., Ltd., Kyocera Corp., and Mizuno Corp. have also directors from foreign countries. All these firms aim at promoting two-way communication with overseas subsidiaries by establishing rapport with them.

Overseas subsidiaries can be vitalized basically in the same way as the head office, that is, by causing a good cycle of management process. It is difficult, however, to expect this from a newly established subsidiary. Some measures must be worked out for the time being. Vitalization may be started by employing local people for the top management of the subsidiary or by vitalizing local middle managers. Generally in overseas subsidiaries, it is not very difficult to motivate workers and lower managers including foremen. Motivational programs for them include: installing advanced, modern equipment and arranging operation standards and manuals for easy understanding of work; preparing common dining rooms for managers and workers; free provision of uniforms; holding athletic meetings and other recreational functions involving families of employees; and giving birthday presents to employees, all of which give employees the joy of being treated as respectable people. These programs are especially efficient in countries where class consciousness is strong.

Motivating and vitalizing middle management is not very easy. Excellent people cannot be employed for middle management, and many local managers find it hard to adjust to the Japanese style of management which cannot be standardized. Oftentimes, the Japanese staff fail to explain things to local managers in a logical way, primarily because of their habitual wish that they should be able to understand without explaining — a wish of having 'mind-to-mind communication'. Also, local middle managers tend to feel

alienated from the decision-making process of the firm, because important decisions are mostly made in Japan. For vitalizing the middle management, it is useful to prepare standards and manuals in which the management system of the firm is described in easy-to-understand and transferrable manner, using their language and logics, as well as to increase the number of types and range of powers to be delegated to them. Effort should also be made to adjust corporate systems to their consciousness and values wherever possible, especially when the Japanese practice of 'creditability transactions' and local practices conflict. Other means to motivate local middle managers include inviting them to visit the home organization, promoting them to the top management in the local or home organization, to say nothing of appointing local people for top positions in the local organization.

## **6-2 Delegation of Power to Overseas Subsidiaries and Various Ways of Managing Them**

Delegating powers to overseas subsidiaries is an important means to vitalize them, for morale of people is excited when they are entrusted with important duties. Of course unlimited delegation of power is not possible, because somehow the entire corporate group have to be managed to move into the same direction. Although IBM is generally said to have distributed its powers to its overseas subsidiaries extensively, it is not so much in reality<sup>44)</sup>. There are a number of restrictions in delegating powers. Organizations of IBM located in various countries are not given any power to decide on such fundamental issues as products to be sold and their prices, the number of people to be employed, business goals, budgets for capital expenditure and cost spendings for their own organizations. This results from the fact that total number of products dealt with by IBM is extremely large and that a certain level of interchangeability is required for all the products. Also, each organization in a country is managed by a board of directors composed of the local people, which includes a foreign director who represents IBM World Trading Corporation (WTC), a company which manages all the organizations of IBM in countries other than the U.S. Only research laboratories are allowed a certain degree of self-management using refunds, at their discretion, of royalties for product paid to the home organization.

Roughly speaking, Japanese home organizations hold authorities over accounting and financial matters including profit disposal, borrowings and investments, as well as product specifications, while delegating those over employment and personnel management matters to their overseas subsidiaries. According to a survey conducted by the Business Behavior Division of the MITI<sup>45)</sup>, authorities most widely delegated to overseas subsidiaries by Japanese firms were those over: 'recruitment and dismissal of local managers' (86.2% of respondents); followed by 'payment scheme' (84.5%); 'procurement of raw materials and parts' (81.0%); 'production quantity' (76.7%); while least

44) Mercer, David; *How the World's Most Successful Corporation is Managed*, Chapter 8, Kogan Page Ltd., London, 1988

45) Business Behavior Division of MITI; *Managerial Ability Indices (Manufacturing Section)* 1987

delegated authorities were: 'ways of profit disposal' (24.1%); 'changing product specs' (47.4%); 'drastic increase/decrease of employees' (50.0%); 'financing sources' (50.9%); and 'small-scale investments' (61.2%). The survey reveals that authorities over employment and personnel management, in which consciousness and values of local people are involved, are mostly delegated to local organizations, while those over financial and accounting matters are retained by home organizations. It is interesting to note that the authority over 'large-scale increase and decrease of employees' tends to be retained by home organizations because it gives a great financial impact on the total labor cost, and that over 'payment scheme' tends to be delegated for motivational purposes.

Practices of management, power delegation and vitalization of overseas subsidiaries have been outlined. While in detail, these practices vary depending on the business philosophies and experience in overseas operations of firms and technological levels of countries where they are operating, the tendency of using local people for presidents and middle managers of overseas subsidiaries wherever possible is widely prevalent. Shigekuni Kawamura<sup>46)</sup>, president of Dainippon Ink & Chemicals, Inc., describing that even in one country appointing presidents of different subsidiaries requires different considerations, says, 'Style of managing overseas subsidiaries differs from one to another. To a company offered to us for sale after a dictatorial president has left, we send a Japanese to fill the position. In a case like Sun Chemical, which was made a No. 1 company in the U.S. by Mr. Barr, he is entrusted entirely with the management of the company. The case of Reichhold is different. Mr. B. Powell, who used to be the president, was not the right person for a medium-scale company because, having been nurtured in a large firm, did not attend to details, so I replaced him with Mr. T. Michell.' There are also other firms which try to appoint local people to presidents of overseas subsidiaries, except when suitable people who can share their corporate visions are not available and it is unavoidable to appoint the Japanese. Mikio Kato<sup>47)</sup>, president of Kyowa Hakko Kogyo Co., Ltd., mentions, 'We have a policy of employing and appointing local people for various positions as much as possible. In our operations in the U.S., only four out of seventy people are Japanese. Operations in Thailand, Malaysia and Italy are entirely entrusted with the local people and there is no Japanese there.' Explains Akito Naito<sup>48)</sup>, president of Rinnai Corporation: 'In the case of Rinnai Korea, we try to appoint a local president as much as possible. Korean people are very familiar to systems and practices in Japan. They have the same visions as we do. But the president of a joint venture in Brasil is a Japanese we have sent. We decide on a case-by-case basis.'

There is a general tendency that consciousness and values of local people are respected in details so that local organizations can be vitalized. Minoru Onishi<sup>49)</sup>, president of Fuji Photo Film Co., Ltd., explains that his firm tries to attract most excellent people by the management style matching the consciousness and values of the local people and best

46) *Ibid.*, (7) Vol. 31 No. 2.

47) *Ibid.*, (5) Vol. 30 No. 5.

48) *Ibid.*, (7) Vol. 31 No. 2.

49) *Ibid.*, (5) Vol. 30 No. 5.

salaries as follows, 'In establishing an overseas plant, we keep the principle of respecting the local culture and habits, and employing local workers and engineers. We try to get high-quality labor by offering the best treatment there.' Sadakane Doi<sup>50)</sup>, president of Daiwa Securities Co., Ltd., describing that ways of thinking and habits among people of Anglo-Saxon origins, says, 'Staff members in our New York and London offices are rapidly increasing, who total presently 450 each, of whom the Japanese account for 10%. Because of such a large proportion of local staff, personnel management there is a big issue. Systems, habits and customs vary greatly between the U.S. and Europe in every respect, and the differences are even greater with the Middle East and South America. Rather drastic layoffs are conducted in the U.S., while it is not the case in the U.K.' Then, he goes on to explain that immediately after the stock market crash of the 'Black Monday', when an U.S.-based firm in London curtailed its workforce drastically and some British firms carried out layoffs to some extent, Daiwa Securities conducted hardly any layoffs, which resulted in raising opinions of the local people toward Japanese management style. Says he, 'We are striving to localize the management as much as possible in line with the proverb, 'When in Rome do as the Romans do.' But we would also like to introduce strongpoints of the Japanese management style, and therefore, we combine the both in harmony.' His firm is a good example of respecting local values and thinking while adopting good aspects of Japanese management with regard to humanitarianism. Foregoing examples — common canteens, athletic and other recreational functions involving employees' families, and birthday presents — are manifestations of humanitarianism, which are effective in vitalizing subsidiaries in various countries. It must be warned, however, that in detail, some methods are unsuccessful abroad. For example, marriage presents are not successful because concepts of marriage in some countries are different from one in Japan, and neither are common rest rooms for managers and employees, although common canteens are successful. It would be arrogant to think that the Japanese style management is synonymous with humanitarian management.

Strengths of Japanese global firms have been their technological and financial capabilities, as well as their cost competitiveness based on these two. From now, they need to strengthen their overseas subsidiaries by demonstrating their business philosophies based on respect for people, promoting and employing local people to top positions, vitalizing local middle managers, more extensive delegation of powers, and explaining orally and documenting the Japanese ways of making decisions, thinking and behaving. By so doing would they be able to attract excellent local people, in particular, superb personnel for R & D and financial divisions, whereby they would be able to keep growing on the basis of financial and technological capabilities strengthened by enhanced creditability by the local people.

## 7 *Summary and Conclusion*

The history of overseas strategies of Japanese firms since pre-war days to the present

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50) *Ibid.*, (7) Vol. 31 No. 2.

can be divided into three periods: the first stage being up to 1960's, when imports and exports were the main focus; the second stage, from 1970's through 1985, when centralized strategies for deploying overseas bases were typically adopted with clear purposes such as labor cost reduction, preclusion of trade friction issues and securing natural resources; and the third stage, from 1985 to present, when more global strategies are worked out in order to positively utilize overseas management resources to face new situations emerging in the world, including higher value of the yen, Japan's becoming world's largest creditor nation, growing markets in Asia, single European market, thawing of U.S.-Soviet relations, revolutions in Eastern Europe, and open economies of socialist countries. The development of overseas strategies is characterized by a major change in the perspective from one of utilizing the best combinations of available physical resources to maximize efficiencies to a wider, global one of establishing competitive advantages for the whole groups. Current global firms are required to vitalize whole corporate groups including their home organizations and overseas subsidiaries by two-way personnel exchanges as well as by preparing and presenting clear concept and round manuals in which Japanese ways of thinking and behaviors are described clearly and thoroughly using the languages and logics understandable to the local people. Unlike overseas strategies developed by Western firms for selling standard goods and daily necessities since the pre-war days and those of Japanese firms deployed before the first half of 1980's focusing on their technological capabilities, these new strategies are based on vitalization of local people.

Deployment of globalization strategies of Japanese firms is accelerated by the external pressure, on one hand, of unprecedented and intertwined changes in the world and the internal energy and desire of firms to survive and grow under these changes on the other. Too rapid changes have, in a way, forced many firms to start globalizing. It was inevitable for insurance and financial firms to direct their huge funds for purchasing bonds and real estates abroad, it was inevitable for automobile parts manufacturers to start overseas operations following their parent companies, and it was inevitable for construction companies to get involved in real estate purchases as a result of sharp drops in foreign orders because of higher value of the yen.

Globalization strategies of competitive advantage are taken by firms which try to maintain their competitive positions in the uncertain world full of rapid changes in political, economic and social conditions, by combining effectively and utilizing efficiently available management resources in the world, such as man, money, materials and information, constantly looking for opportunities from a global viewpoint. For formulating and implementing these strategies, a firm has to start with defining its business philosophy based on respect for people and objectives for long-term survival and growth of the whole corporate group, while at the same time positively collecting information from reliable people. Then, it can plan and implement deployment of overseas subsidiaries on the basis of the business philosophy and the objective as guiding principles, and the gathered information. The firm, then, takes various vitalization measures for the whole corporate group as it manages and operates its home organization and overseas subsidiaries. In this case, differences in the ways of thinking between the home and overseas organizations



need to be addressed specifically. In the Japanese approach of 'credibility transactions', individual transactions may not necessarily produce profit. It is expected that profit is generated by continuing business relationships over a long time in a multilateral way. While this approach has proved to be very effective for firms to cope flexibly with rapid changes in the external environment, it is increasingly becoming a cause of serious conflicts both at home and abroad, because there is no explicit rules to this approach. Because of the absence of explicit rules, it is very difficult to apply the approach abroad. And yet, where it seems effective in vitalizing overseas subsidiaries, it may be applicable on condition that it is thoroughly explained to and understood by the local people involved seizing every opportunity.

Information obtained during the vitalization process is used to expand and correct the body of information already existing in the firm, and the information thus created empowers the firm to deploy additional subsidiaries abroad, to modify its ways of management, and to vitalize the whole group. Arousing challenging spirit of the people participating in the group around the world and having them display their creativity constitute major tasks of globalization strategies of competitive advantages to be held by firms of today.

There are roughly three types of business philosophies which developed over the years and are held now by globalizing Japanese firms: those including 'contribution to the nation and the society' and 'spirit of harmony' inherited from Japanese cultural values of the age preceding 1970's; those in which concepts of 'creation', 'technologies' and 'researches', or Weber's 'free from value' type of concepts, are emphasized to keep away from typical Japanese values in order to cope with rapid trend of globalization after 1985; and those in which 'wellbeing of the mankind' is stressed for wide acceptance in the world. As philosophies developed into the second and the third types, expressions used have become more simplified and shorter in the forms of CIs and slogans. Firms which have the first two types of philosophies also now begin to stress 'respect for people around the world', together with internationalization, in their guiding principles.

Globalizing firms gather information, especially informally through networks of reliable people in the world, and constantly before and after implementation of global strategies. They do so even if collected information does not lead immediately to profit making, because they know that information and money cannot be obtained at the same time and that in this information-oriented society information is more important than money, and reliable people who own information are more important than information itself. Manufacturers know that their overseas research laboratories must produce research results and information which would form the core of their strengths rather than those which generate profits immediately, by employing excellent brains and making huge investments on researches. Financial institutions know that they must accumulate information on company appraisals with a long perspective by employing excellent staff well versed in values and customs of various countries.

There are mainly three types of criteria for making decisions concerning global deployment: economic criteria used to secure procurement sources or to improve cost competitiveness; criteria for supplementing production and technologies within the whole corporate group, including overseas production of standard products and medium price-range

products; and criteria related to people, including enhancement of creditability of the local people toward the firm by respecting local values. The trend of rapidly globalizing Japanese firms indicates that there is an apparent shift of weight from strengthening 'money', 'materials' and 'technology' to improving creditability of 'man'.

Vitalization of overseas subsidiaries must be pursued as part of vitalization of the entire corporate group including the home organization. It requires, based on the understanding that Japanese-style 'mind-to-mind communication' does not work in foreign cultures, persistent efforts to explain Japanese values and concepts including 'creditability transactions', which local people usually find strange, using the language and logics understandable to them. It also requires to enhance communication with local people and motivate them to understand through personnel exchange programs. Assigning local people to presidents' posts, appointing local top management to directors' positions in home organizations, and promoting capable local middle managers to top positions in their organizations are very effective programs. With regard to local middle managers, positive motivational measures would be necessary, which include delegation of certain powers, such as financing, in addition to labor and personnel management authorities, as well as inviting them for visits to home organizations. It must be remembered, however, that these measures should differ greatly depending on the nature of overseas subsidiaries, countries they are located and histories of their establishment.

To conclude, traditional, economic perspective, which is represented by optimum deployment and utilization of management resources available in the world is no longer sufficient in globalization strategies of Japanese firms. They should increase their efforts of vitalizing whole corporate groups to motivate people and have their creativity fully displayed. It is particularly important to vitalize overseas subsidiaries to best utilize knowledge and wisdom of local researchers and middle managers.