

# Current Global Strategies of Japanese Firms

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## 1. Introduction

Most Japanese firms have faced a severe business environment both in Japan and overseas since the early 1990's. They have not only been confronted with a long-term recession after the bursting of the bubble economy, but have also been faced with keen competition from US and European companies who were progressively regaining their competitive edge, not to mention new competition from emerging of companies from the economies South Korea, Taiwan, Singapore, Malaysia and so on. Japanese companies have had put themselves in danger by competing with foreign companies, even in the Japanese home market that they had monopolized for a long time, as a result of deregulation in the Japanese market. Many researchers consider that faced with such severe and changing circumstances, Japanese firms and society must change and change fast.

Why have Japanese companies lose their global competitiveness, which had showed such strength in 1980's? This can be attributed to a number of reasons; "the introverted nature of the standard Japanese companies" was not effective in a world whose environment demanded a global standard. It can be said that the strategic behavior of Japanese companies which had considered that they were enhancing their strategies actually contributed to their downfall as a result of the fact that the world had changed towards that of a global economy, whilst they stood still.

The big challenge for Japanese firms is to find out how to change and adapt to their new environment. This paper represents the first part of the larger research project, which seeks to find ways to resolve such problems. The purpose of the paper will be to clarify the present state of global strategies a business development of Japanese firms in the face of immediate mega-competition, via a questionnaire survey conducted in conjunction with the JMA (Japan Management Association)<sup>1)</sup>. The questionnaires were mailed to 1,200 manufacturing companies who were JMA members and 220 valid replies were received (a response rate of 18.4%).

## 2. Analytical Framework

The global business development of firms cannot be explained only in terms of global strategies. It can be explained in terms of the other factors such as corporate strategy, organizational strategy, competitive advantage, personnel management, and the interaction between them. This paper will discuss the globalization of Japanese firms with respect to five critical factors. 1) Corporate strategy, 2) Functional development on overseas businesses, 3) Competitive advantages in global markets, 4) Personnel strategies and personnel management systems, 5) Strategic policies and organizations for developing overseas business (see figure-1).

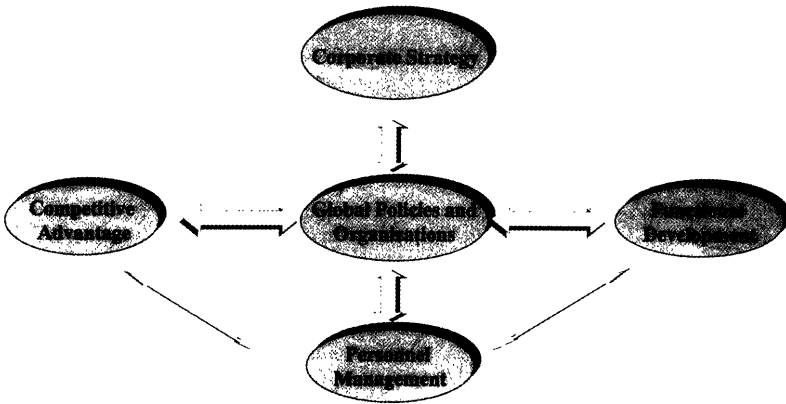
### 2.1. Analytical Factors

The first factor, “corporate strategy” relates to the basic policies for achieving an organization’s corporate vision. It represents the nucleus which

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1) This questionnaire survey was implemented by the research project with JMA. It was permitted by JMA to use the data. However, author, N. IWASAKI, did every analysis in this paper.

Figure. 1 Analytical Framework



guides corporate behavior. If an organization's global strategy is not related to its corporate strategy, global business development cannot work effectively. In our questionnaire, we asked Japanese companies, what strategic issues were important to them in surviving and overcoming the present severe business environments.

A second factor is the "functional development of overseas businesses." This refers to how the companies operate their overseas business functionally. The forms of functional transfer differs from firm to firm corresponding to the phase of global business development of each company, adding to corporate strategies, organizational structure, business structure, management structure and competitive structure of each company. In the questionnaire, we asked the companies how they developed the functions such as production, sales & distribution, procurement, R&D and, how they utilized external resources where appropriate.

A third factor is the issue of "global competitive advantage." It is difficult to establish the precise core competence of each company. Therefore, we asked

the companies in the questionnaire, which aspects they evaluated in overseas markets.

A fourth factor, “personnel strategies and personnel management systems” relates to strategies adopted when operating overseas. To date, research has been conducted on the global personnel strategies of Japanese firms. However, most of this research is concerned with the transferability of Japanese style of management and the shop floor level management.

The final purpose of our research project as a whole is to identify whether in fact the emergence of a new global management strategy can be identified. Changing personnel strategies and management systems are inevitable in moving from the “Introverted Japanese Management Style.” Hence, we must mainly focus on middle management who are key factors of strategic management. Because this paper is a first step of a larger research project, we will not deal with these matters in detail here and leave this until the next stage of the research has been completed.

The last factor is “strategic policies and organizations for developing overseas businesses.” This refers to the organizational and decision making systems among Head Quarter (HQ) and subsidiaries in promoting global businesses. We asked the companies in our questionnaire, how they adapted to the local markets, how they structured their functions and authority systems, and the flow of information for global business development<sup>2)</sup>.

### 3. Overviews of the Globalization of Japanese Firms

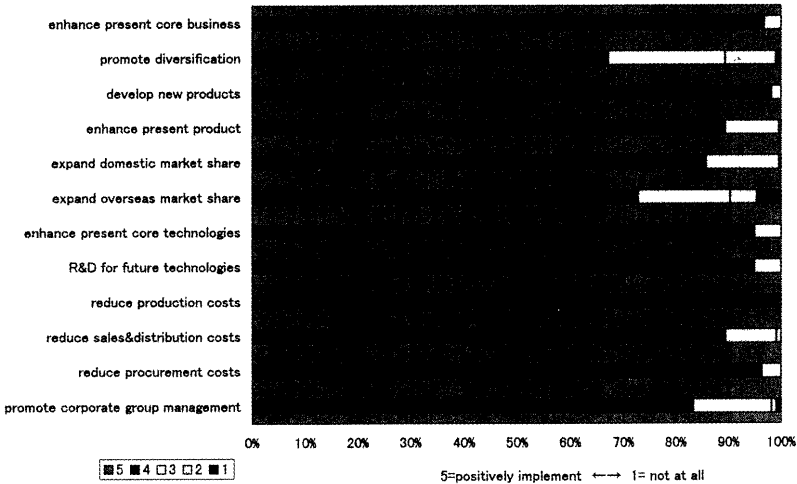
In this section, we will analyze five factors mentioned above, based on the data<sup>3)</sup>.

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2) The questionnaire was designed based on the discussion by Batlett, C.A., S. Goshal, (1989) “Managing Across Borders,” Harvard Business Press.

3.1 Corporate Strategies

Figure. 2 Corporate Strategies



As figure.2 illustrates, many Japanese companies progressed their business through enhancing their present core business and reducing costs (see figure.2). It can be said that these corporate strategies are in fact closely related to the long-term recession in Japan. On the other hand, “R&D for new products” and “R&D for future technologies” also gained higher scores. From this, we identified a new trend in that Japanese companies are focusing much more on their profitability rather than on their market share.

In addition, we conducted factor analysis to examine whether there were common factors among corporate strategies (see figure.3). As a result of this analysis we are able to explain corporate strategy in relation to three factors;

- 3) In this paper, we do not analyze from the viewpoint of corporate size and types of industries, which can be considered an important factor for analyzing of global business development. In a next paper, we will discuss these subjects.

**Figure. 3** Factor Analysis “Corporate Strategy”

	first factor	second factor	third factor
	Reducing Costs	Enhancing Domestic Core Business	Developing New Technologies
enhance present core business	0.125	0.690	0.000
promote diversification	0.201	-0.220	0.576
develop new products	0.000	0.314	0.504
enhance present products	0.249	0.429	0.000
expand domestic market share	0.000	0.713	-0.107
expand overseas market share	0.111	0.531	0.358
enhance present core technologies	0.305	0.552	0.251
R&D for future technologies	0.000	0.000	0.823
reduce production costs	0.796	0.160	0.000
reduce sales & distributin costs	0.761	0.000	0.18
reduce procurement costs	0.774	0.228	0.000
promote corporate management	0.134	0.264	0.541

“reducing costs,” “enhancing domestic core business,” and “developing new technologies.” In order to avoid static errors, these factors will be analyzed by surrogate variables in this paper. We will use a surrogate variable “reducing production costs” as a first common factor “reducing costs,” “expanding domestic market share” as a second common factors, “enhancing domestic core businesses,” “developing new technologies in the future” as a third factor “developing new technologies.”<sup>4)</sup>

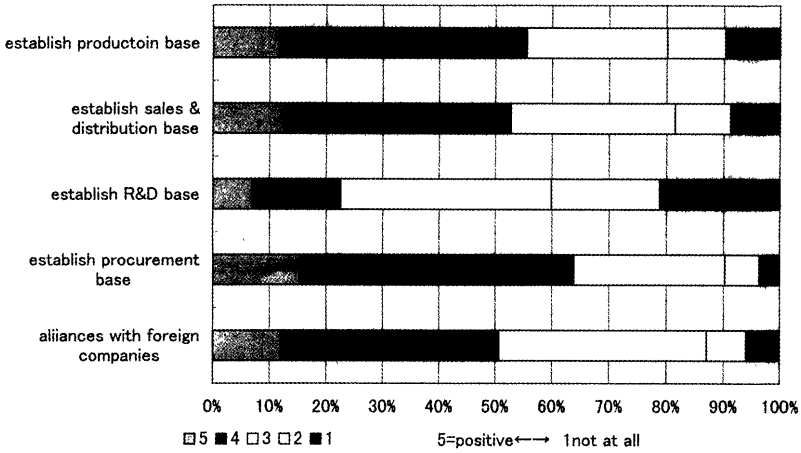
### 3.2 Functional Development for Overseas Business

Figure.4 indicates the overview of functional development on overseas business. Although, more than 50% of the companies positively developed a production base, sales & distribution base, and an overseas procurement base, only 20% of the companies developed R&D overseas. This result demonstrated that R&D development overseas of Japanese companies is not yet that advanced. However, since a majority of the companies are allied with a foreign company, strategic alliances of this nature can be seen to be an important factor in the global strategy of Japanese companies.

4) In this paper we use surrogate factors in analyzing by factor analysis.

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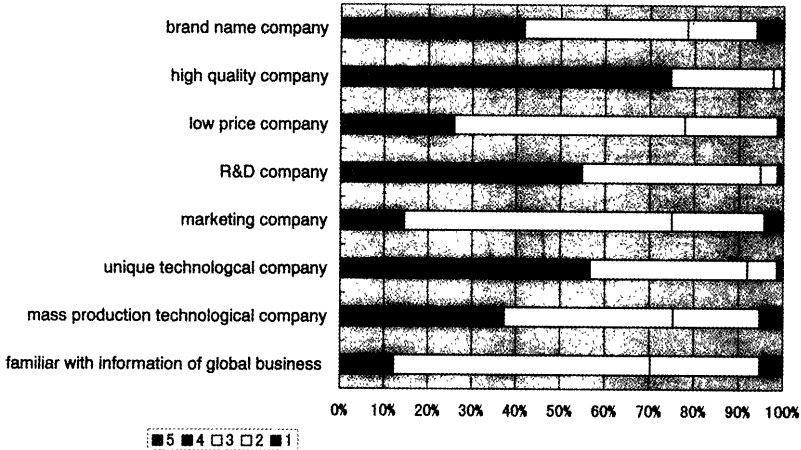
**Figure. 4** Factor Analysis concerning corporate strategies



### 3.3 Global Competitive Advantages

In figure.5, the present situation of “global competitive advantages” is

**Figure. 5** Global Competitive Advantage



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revealed. Most Japanese companies recognize quality of products or unique technologies as their strength, rather than mass production technologies (see figure.5).

Common factors among global competitive advantages were searched for through factor analysis (see figure.6). As a result of this analysis, global competitive advantage can be explained by two factors; global competitive advantage based on “mass production and low price,” and global competitive advantage based on “unique technologies.”

We will use a surrogate variable “evaluation as marketing companies,” as a first common factor based on “mass production and low price,” “evaluated as unique technology companies” as a second common factor based on “high quality and unique technologies.”

**Figure. 6** Global Competitive Advantage in Overseas Market

	first factor	second factor
	mass production and low price	high quality and unique technologies
brand name company	0.467	0.481
high quality compay	0.295	0.790
low price company	0.719	0.000
R&D company	0.256	0.786
marketing company	0.792	0.206
unique technological company	0.000	0.869
mass production technological company	0.740	0.118
familiar with information of global business	0.648	0.301

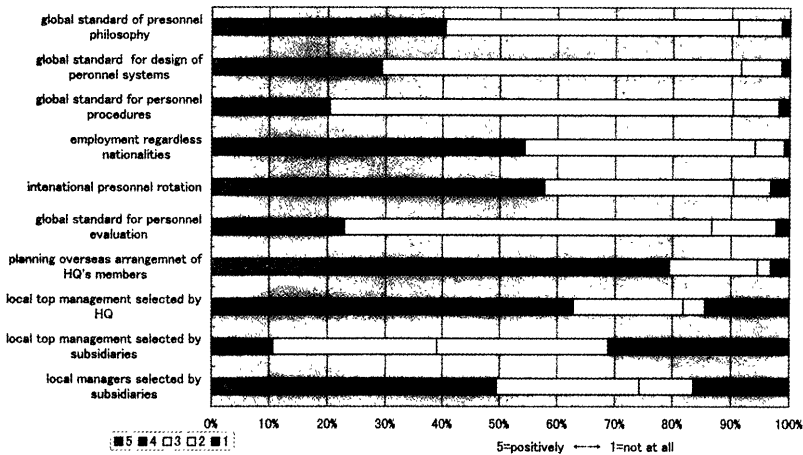
### 3.4 Global Personnel Strategy and Management Systems

From figure.7 concerning personnel strategies and management systems, we can see that few companies consider global standardization important (see



figure.7). And ever fewer companies consider localization of personnel strategies and management systems. By contrast, many companies considered that “to plan the overseas arrangement of HQ’s members” and “selections of Top management of subsidiaries by HQ” were important. In addition, more than 50% of the companies considered that international personnel rotation was important. Clarification is however required on just whom and how they will implement this international personnel rotation, because it is closely allied to and has an impact upon the information flow in the organization.

Figure. 7 Global Personnel Strategy and Personnel Institutions



Also, a common factor among global competitive advantages was examined by factor analysis (see figure.8). From this analysis, global personnel strategies and management systems can be explained by three factors; “global standardization of personnel management,” “HQ controlling worldwide personnel systems,” and “localization of personnel management.”

We will use a surrogate variable “standardizing the personnel management design worldwide” in place of a first common factor, “global standardization of personnel management,” “Top management of subsidiaries selected by HQ” as a

second common factor “HQ controlling personnel management,” and “Top management of subsidiaries selected by local subsidiaries” in place of a third common factor “localization of personnel management.”

**Figure. 8** Factor Analysis on Global Personnel Strategy

	first factor	second factor	third factor
	global standard of personnel strategies and management systems	HQ controlling personnel management	localization of personnel management
global standard of personnel philosophy	0.814	0.208	0.000
global standard for design of personnel systems	0.907	0.000	0.000
global standard of personnel procedures	0.785	0.000	-0.142
employment regardless nationalities	0.344	0.388	0.238
international personnel rotation	0.304	0.701	0.118
global standard for personnel evaluation	0.747	0.245	0.000
planning overseas arrangement of HQ's	0.182	0.796	0.000
local top management selected by HQ	0.000	0.812	0.000
local top management selected by subsidiaries	0.000	0.000	0.934
local managers selected by subsidiaries	0.000	0.539	0.641

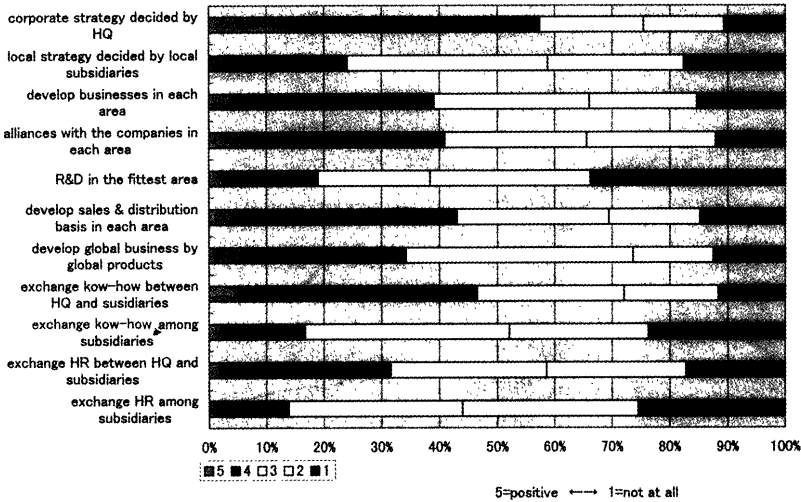
### 3.5 Strategic Policies and Organizations for Developing Overseas Business

The last factor is on strategic policies and organizations for developing overseas businesses. Figure.9 illustrates that many of Japanese companies developed their global businesses, with their HQ centered in Japan. Technologies, know-how, and human resources were particularly sent to flow from HQ to subsidiaries in most Japanese companies.

In addition, factor analysis revealed the existence of common factors among strategic policies and organizations for developing overseas businesses (see figure.10). From this analysis, strategic policies and organizations for developing overseas business can be explained by two factors; global business

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Figure. 9 Strategic Policies and Organizations for Developing Overseas Business



development through “global interchange of human resources and know-how,” and “control by HQ.”

We will use a surrogate variable “human resources interchange among subsidiaries” in place of a first common factor “global interchange of human resources and know-how,” and “only HQ decides global strategies” in place of

Figure. 10 Factor Analysis of Strategic Policies and Organizations for Developing Overseas

	first factor	second factor
	global interchange of human resources and know-how	control by HQ
corporate strategy decided by HQ	0.133	0.777
local strategy decided by local subsidiaries	0.573	0.266
develop businesses in each area	0.447	0.677
alliances with the companies in each area	0.504	0.309
R&D in the fittest area	0.574	0.363
develop sales & distribution base in each area	0.256	0.689
develop global business by global products	0.331	0.601
exchange know-how between HQ and subsidiaries	0.378	0.680
exchange know-how among subsidiaries	0.743	0.305
exchange HR between HQ and subsidiaries	0.783	0.218
exchange HR among subsidiaries	0.875	0.129

a second common factor “Control by HQ.”

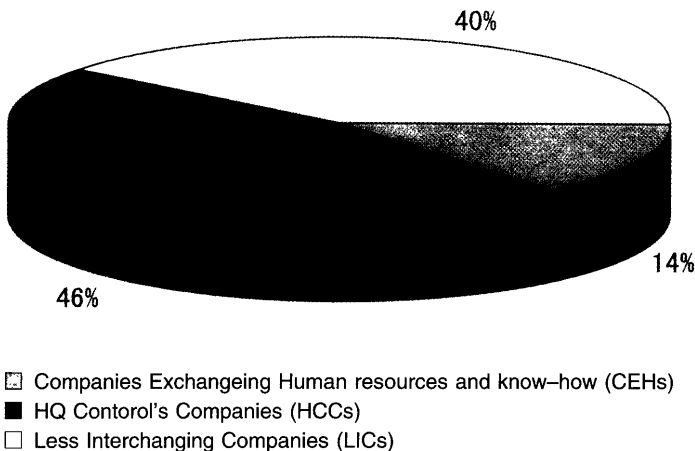
#### 4. Analysis Based on Strategic Policies and Organization for Developing Overseas Business

In this section, we will analyze the relevance among “strategic policies and organizations for developing overseas businesses” and the other four factors.

##### 4.1 Classification of Globalization

At first, we will categorize globalization of Japanese firms into three types, by using two common factors that are established by factor analysis in section 3.5. The first of those is a group of companies which developed their global businesses through exchanging human resources and know-how positively among global group companies. The second group are those where HQ does not control global businesses, but exchanges human resources and know-how among subsidiaries infrequently. The third group is that both control by HQ

**Figure. 11** Types of Globalization



and the interchange of human resources and know-how among subsidiaries are not strong in developing global business<sup>5)</sup>.

Thus, we will call the category as types of globalization and name each of them as follows. 1) Companies Exchanging human resources (HR) and know-how (CEHs), 2) Strong HQ Control's Companies (HCCs), 3) Less Interchanging Companies (LICs). The ratio of each group to all samples is that CEHs is 14%, HCCs 46% and LICs 40%.

#### 4.2 Analysis of Relevance among Factors

We will analyze the relevance among five factors, shown in the analytical framework in this section (see figure.1).

##### 4.2.1 Corporate Strategies

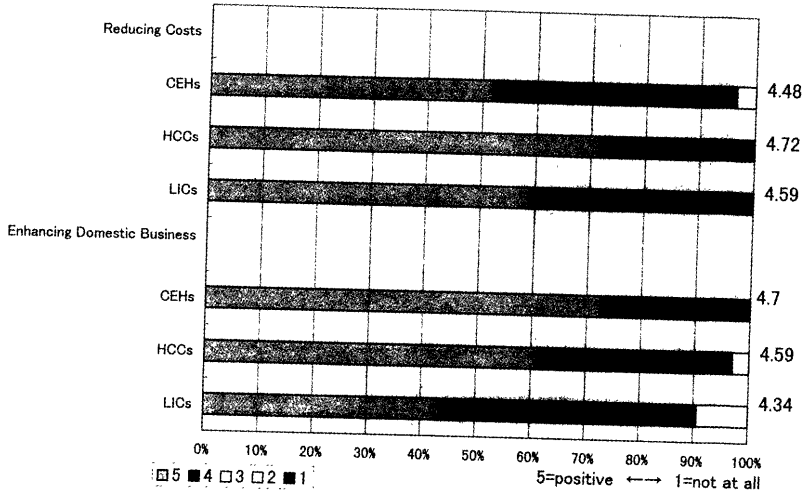
We discovered significant differences from the analysis of the relevance between types of globalization and three common factors of corporate strategies; “reducing costs,” “enhancing the core businesses in domestic market,” and “developing new technologies.” That is to say, HCCs and LICs implement the “reducing costs” strategy more positively than CEHs, and CEHs implement the “enhancing core business in domestic market” strategy rather than HCCs and LICs (see figure.12).

We can conclude the following from the data. At first, “reducing costs” strategy by HCCs was not necessarily focused on the “enhancing the core businesses in the domestic market.” On the other hand, CEHs facilitated to the exchange of HR and know-how among subsidiaries, not only in order to expand

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5) In the analysis, we do not distinguish companies with only “exchanging HR and know-how” independently, but companies with both “exchanging HR and know-how” and “HQ controlling companies” are included in “OCEHs,” because there are not many samples and, we can define globalization of these companies is advanced on overseas business.

Figure. 12 Corporate Strategy and Globalization



overseas business, but also to enhance their core business in the domestic market.

#### 4.2.2 Functional Development for Overseas Business

Several significant differences were revealed between the analysis of the relevance between types of globalization and two common factors of functional development of overseas business “developing overseas production bases,” and “developing overseas sales & distribution bases.”

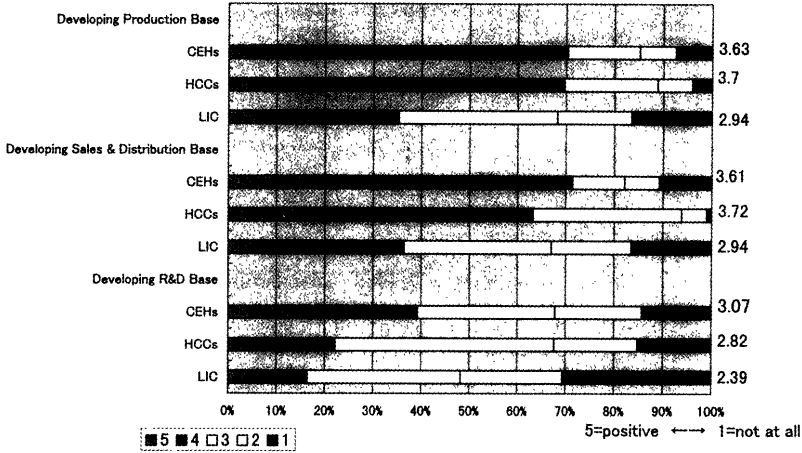
From the data concerning development of production bases and of the sale & distribution bases, HCCs are the most advanced and LICs are the least. Also, HCCs are the most advanced concerning R&D overseas bases, though it is not a statically significant difference. The analysis indicates that HCCs are expanding overseas business more aggressively than CEHs and LICs.

#### 4.2.3 Competitive Advantage in Global Market

There are significant differences among factors of globalization and two common factors of competitive advantages based on “mass production and low

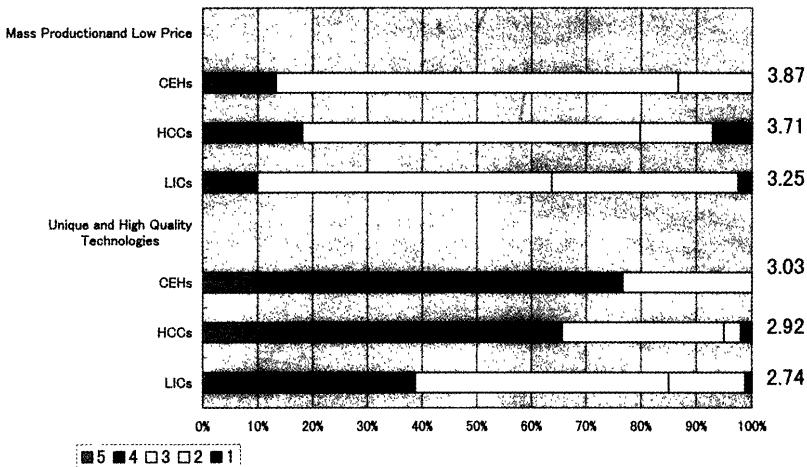
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Figure. 13 Functional Development and Globalization



price,” and one based on “high quality and unique technologies.” From the fact that CEHs possess competitive advantage in both cases, to exchange human resources and know-how on a global basis is important, when companies are

Figure. 14 Competitive Advantage and Types of Globalization

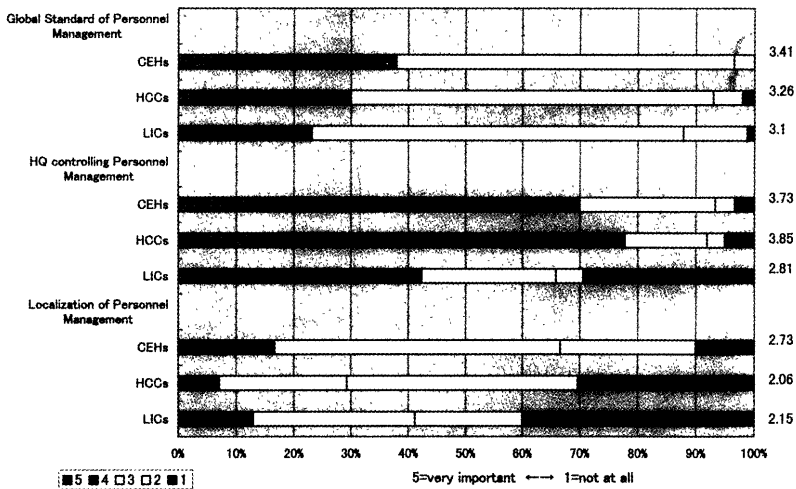


attempting to build a global competitive advantage.

#### 4.2.4 Personnel Strategy and Systems in Globalization

Finally, we will analyze the relevance between the types of globalization and global personnel strategies and systems (see figure.15). There are significant differences between types of globalization and the three common factors; that is to say, “global standardization of personnel management”, “HQ controlling personnel management,” and “localization of personnel management.” CEHs emphasize “global standardization of personnel management” and “localization of personnel management,” but HCCs do “HQ controlling personnel management.” Thus, global personnel strategies and management systems influence the corporate globalization, and vice versa.

**Figure. 15** Personnel Strategy and Globalization



## 5. Brief Conclusion

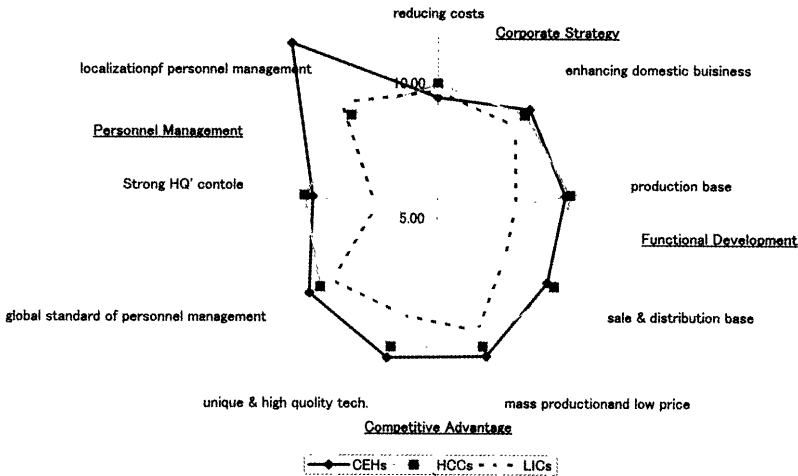
We have discussed the global business development of Japanese companies from data gathered by the questionnaire in this paper. We categorized Japanese



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companies into three types, and analyzed the relevance with four other factors, “corporate strategies,” “functional development for overseas business,” “competitive advantages in global market,” and “global personnel strategies and management systems.” Figure.16 is a summarized figure, discussed above. For the sake of convenience, scores of HCCs were settled on 10.

**Figure. 16** Characteristic of Globalization



Consequently, we can identify some characteristics of global business development of Japanese companies as follows. 1) CEHs are not only aggressively developing their overseas businesses, but also enhancing their domestic business through making the best use of performance gained in overseas market. 2) HCCs are developing their overseas business activities like production and sales more aggressively than CEHs, but CEHs are building their global advantages more effectively than HCCs. 3) CEHs tend to establish the personnel management systems based on global standards.

Thus far, we have discussed the present situation of globalization of Japanese companies. However, we can not clarify the reasons why such

characteristics exist and the causal relationships among them. And we were not made the relevance of corporate size and the effects caused by the different types of globalization clear.

In the way, this paper only depicts part of the global business characteristics of Japanese companies. And as such represents a start in considering the existence of an emerging new management standard in the next phases of this research we propose to investigate this in some depth.

#### **Acknowledgements**

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