THE ASIA STRATEGIES OF JAPANESE CORPORATIONS

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For several decades Japanese companies have been a major presence in Asia and their investments were a significant driver of economic development in the region, particularly for the ASEAN countries. In the emergence of China during the 1990s, however, Japanese companies seem to have taken a back seat to multinational corporations from western Europe and the United States. This paper seeks to understand the reasons for this by examining the China strategies of Japanese and other multinational companies. The first part looks at the changing business environment in the world and particularly in Asia and how this has affected Japanese corporations. The second part consists of case studies of the strategies of various major foreign corporations in China. By comparing successful European and American companies with Japanese companies we attempt to identify the aspects of successful China strategies. This comparison highlights the different areas of strength in Japanese and other foreign corporations and suggests ways Japanese corporations may improve their success in China—in particular, by paying more attention to developing and communicating an overall strategic vision, by putting more authority in the hands of regional managers and clarifying the division of responsibility with headquarters, and bylocalizing management, employment, and products. The final section considers the future challenges to the Asia and China strategies of Japanese companies.

CHANGES IN THE BUSINESS ENVIRONMENT FOR JAPANESE COMPANIES IN ASIA

Three forces have been changing the business environment for Japanese companies that do business in the Asia region: changes operating within Japanese companies, changes in the economic role of the East Asia region, and changes brought about by the rise of China as a competitive factor.

Changed consciousness of Japanese companies

In recent years, the environment surrounding corporate activities has changed greatly . In particular, companies have been greatly influenced by increased amounts of international trade and investment, advanced globalization achieved by reduction of trade barriers, and development of physical distribution networks. At the same time, IT and technological progress have brought an era in which capital is more mobileinvestors thoroughly screen companies before providing funds, and returns on investment have become a key for funding. Consequently, companies are now compelled to put more emphasis on profitability while responding to globalization, and companies throughout the world have entered a period of tough competition to improve quality, selection and concentration, restructuring, large-scale mergers, and thoroughgoing cost reduction.

Under these conditions, in particular, Japanese companies became aware that they could not survive severe international competition unless they made still greater efforts, and their corporate strategies have reached a turning point. First of all, Japanese companies are converting from past defensive strategies—such as transferring production to Europe and the United States to avoid trade friction and investing in Asia to avoid cost increases due to yen appreciation—to strategies of global "attack" with improved profitability as the prime objective. Furthermore, this change is particularly remarkable in East Asia. There, the focus of Japanese companies has shifted from setting up shop to gain market share in each country to setting up shop to establish an economic bloc as an integral market and production site and aiming at optimization within the region.

Because overseas business activities of Japanese companies create local employment and bring about economic development through technological transfer, they have positive effects on local economies. /But in order to establish smoother relationships which will help sustain business development and local operations, Japanese companies now recognize the need to contribute to the social well-being of local communities through philanthropic and other activities.

East Asia for Japanese companies

While the economies of the developed countries continue to slow down—e.g., economic recession in the United States, protracted economic stagnation in Japan—East Asian countries such as China continue steady economic growth. In particular, China maintains high economic growth rates without being subject to the currency turmoil in East Asian countries. In addition, in the future outlook, the GDP growth rates of East Asia are expected to exceed those of developed countries.

Under these circumstances, Japanese companies, which are experiencing difficulty making a profit at home, naturally have their eyes more and more on increased profits in the growing East Asian economy. This is evidenced by the earnings performance of the overseas business activities of Japanese companies. In the past 10 years, activities in East Asia have constituted an important source of profits.

The balance of direct investment by Japanese manufacturers in East Asia is ¥2 trillion in China and ¥2.3 trillion in ASEAN. Japanese companies set up shop in East Asia and constructed production sites early on because of geographical and historical relations in the region. Based on East Asia's abundant and low-cost work force, Japanese processing and assembly companies made large profits by setting up shop in a local economy, importing raw materials from Japan and other countries, processing and manufacturing products locally, and exporting them to the world. In recent years, assembly manufacturers, together with many raw materials and parts manufacturers who also set up shop in various East Asian countries, established production networks in the region in order to improve local content to further shorten the lead time and secure profits. This is seen in the increased volume of Japan's trade with East Asia as well as the increased volume of trade in intermediate goods such as general machinery and electrical machinery.

Previously, East Asia attracted attention as a production site but not as market because geographical and institutional factors segmented the market by individual countries, which had neither large population nor GDP. In recent years, however, the region's attraction as market has increased because of various changes, and Japanese companies have taken more interest in cultivating the market in East Asia.

ASEAN's attraction as market diminished as the area fell into severe economic straits with the currency crisis, but the economies recovered rapidly thereafter. and market integration is taking place with the progress of the ASEAN Free Trade Area (AFTA). The regional market of 520 million people and 580 billion dollars of GDP has been highly reappraised, and the number of Japanese companies that view ASEAN as a promising market and plan to seek profits by cultivating that market is increasing.

In addition, a class of new wealthy consumers is beginning to emerge in several urban areas in China, and Japanese companies show a strong tendency to drive home their marketing strategies in these markets and expect to sell Japanese products.

Changes in Japanese companies due to the rise of China

With its accession to the WTO in December 2001, China is further enjoying a boom in investment from overseas. It is only about 15 years since China began full-scale reform and liberalization, but early in this period, overseas Chinese in Hong Kong and Asia and thereafter companies in Europe and the United States began to invest in the Chinese mainland. Japanese companies, too, began to invest in China on a large scale since the 1990s, setting up manufacturing plants. Their investment pace was consistent compared to the high-risk/high-return-oriented investment of European and U.S. companies. Individual Japanese companies were not conspicuous in general, with the exception of some that had built up a strong brand image in home electric appliances and other goods. In reality, according to statistics on direct investment to China during the past five years (table 1), the total amount invested by Japan is smaller than that of the United States, Europe, and Taiwan. Japan is nothing but one of the major investors in China.

Table 1 Direct investment in China by source (based on investment implemented)

Unit: Million US$, %

Origin	1998		1999		2000		2001		2002	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Hong Kong, Macao, Taiwan	21,845	48.1	19,270	47.8	18,144	44.6	20,018	42.7	22,300	42.3
Hong Kong, Macao	18,930	41.6	16,672	41.3	15,847	38.9	17,038	36.3	18,329	34.8
Taiwan	2,915	6.4	2,599	6.4	2,296	5.6	2,980	6.4	3,971	7.5
S. Korea	1,803	4.0	1,275	3.2	1,490	3.7	2,152	4.6	2,721	5.2
ASEAN 10 countries	4,223	9.3	3,289	8.2	2,845	7.0	2,984	6.4	3,256	6.2
Singapore	3,404	7.5	2,642	6.6	2,172	5.3	2,144	4.6	2,337	4.4
Malaysia	340	0.7	238	0.6	203	0.5	263	0.6	368	0.7
Thailand	205	0.5	148	0.4	204	0.5	194	0.4	188	0.4
Philippines	179	0.4	117	0.3	111	0.3	209	0.4	186	0.4
Indonesia	69	0.2	129	0.3	147	0.4	160	0.3	122	0.2
Japan	3,400	7.5	2,973	7.4	2,916	7.2	4,348	9.3	4,190	7.9
USA	3,898	8.6	4,216	10.5	4,384	10.8	4,433	9.5	5,424	10.3
Virgin Islands	4,031	8.9	2,659	6.6	3,833	9.4	5,042	10.8	6,117	11.6
Cayman Islands	324	0.7	378	0.9	624	1.5	1,067	2.3	1,180	2.2
Europe	4,309	9.5	4,797	11.9	4,765	11.7	4,484	9.6	4,049	7.7
Total	45,463	100.0	40,319	100.0	40,715	100.0	46,878	100.0	52,743	100.0

Source: JETRO Shanghai Center 2003

The financial strength of Japanese companies has improved since the recession of the mid 1990s, however, and the amount of investment from Japan has increased considerably since around 2001. Those Japanese companies in the winner's circle focused on business selection and concentration and on overseas strategies, and particularly, manufacturers began to move production sites to China on a large scale. In the past one to two years, the presence of Japanese companies in China increased considerably in terms of both investment amount and investment returns. In addition, with the development of China's domestic industry and modernization of manufacturing techniques, they have rapidly increased their exports to China of critical essential parts and high-functional materials. Particularly with the rapid expansion of the U.S.-Japan trade deficit and the reinforcement of competitive edge by production transfer and export of value-added parts and materials, which is Japan's specialty, it could be said that, among the world's companies, Japanese companies are now receiving the greatest benefit from Chinese business.

As described above, Japanese companies have succeeded in investment in China to a certain extent. According to a survey by JETRO's Shanghai Center, 70 to 80% of Japanese companies that have been operating in China for 3 years or more are showing a surplus, and responding companies rarely indicated "business in China is unprofitable," which is a frequent response in Japan. Compared to many European and U.S. companies as well as Hong Kong and Taiwan companies, which undertook large-scale investments and withdrew in the 1990s when China's investment environment was not yet organized, Japanese companies' investments in China have been more cautious and incremental.

In the last several years China's investment environment has undergone dramatic changes. Against the background as the world's No. 1 recipient of indirect inward investment, China's domestic market is offering great opportunities as consumption increases rapidly. In particular, the growth of consumption and rising standard of living in the advanced cities in the coastal regions such as around Shanghai and Beijing is remarkable. Because the population was already quite large, a gigantic market has appeared even if it is concentrated among only wealthy consumers and forward-looking companies. Rapidly shifting their business strategies over the past few years to focus on domestic sales, Japanese companies are hastening to organize business units targeted at China's domestic market. In addition to entities that outsource production or produce entirely for export, one after another, Japanese companies have been setting up non-operating, investment entities ("umbrella companies"(affiliated enterprises) or regional headquarters) in Shanghai and Beijing.

This kind of environmental change has created considerable problems for conventional companies that tend to follow steady, consistent type investment. As a result of their more cautious, incremental investment stance, their share and presence in China's gigantic domestic market declined and they lost out in the effort to become major market players. Unlike markets of Southeast Asian countries where Japan succeeded to date, China has a full complement of domestic industries and the business model that proved successful in Southeast Asia—which depended on differentiating by monopoly supply of specific products or by speeding up the product cycle through technological innovation—cannot succeed in China. Even if many big-name overseas brands are readily available in China, there are also hundreds of automakers in local regions throughout the mainland and some companies even make a profit as a result of unique industrial protection policies. In addition, in the markets for consumer goods, myriads of local companies maintain a large share based on their pricing strategies despite the quality and services offered by brand name products. In the Chinese domestic market, channel policies and marketing and service systems that can compete with local Chinese companies are mandatory.

To do business with this gigantic domestic market, Japanese companies will be forced to reform their conventional China strategies considerably.

SUCCESS FACTORS FOR FOREIGN CORPORATIONS IN CHINA—CASE STUDIES OF JAPANESE AND WESTERN MNCS

Generally speaking, the China strategies of Japanese companies have differed from the aggressive risky strategies of European and U.S. companies. In this section, we attempt to analyze what aspects of their strategies contribute to the success of foreign firms in China by comparing the experiences of Japanese, American, and European companies operating in China. We defined six categories of the China strategy of foreign companies:

[1] Investment policy, which includes concept of return on investment, business assessment techniques.

[2] "Insiderization", which relates to the extent of localization of company operating responsibility, relationships with the government, and harmonization with domestic market.

[3] Product development, which involves targeting products at Chinese companies and consumers and setting up local R&D functions and systems.

[4] Channel policy, which covers the distribution policy for the domestic market and relationships with distributors.

[5] Marketing, which includes formulation of brands, selling techniques by channels, advertising and publicity technique, measures against fake products.

[6] Business management, which relates to the corporate vision, HR (personnel policy), education and training system, and business platform.

We collected information on these aspects of strategy through interviews with company representatives in China, discussions with employees in NRI's Shanghai office, and press reports and other information in the public domain. Below we case studies of thirteen multinationals operating in China. We use these case studies to generalize about successful strategies.

Case Studies

•General Motors (United States)

From the beginning of China's reform and liberalization General Motors (GM) acted aggressively to acquire a special position in the manufacture of automobiles in China, including a visit by the CEO. In the early stages, the company experienced stinging failure of joint-ventures in pickup truck production and other, but thereafter it went on to establish such successful joint ventures as the one with Shanghai Automotive Industry Corporation Limited (SAIC).

The distinctive feature of GM's strategy lies in the fact that it brought R&D functions into China at the request of the government, whereas at the initial stages, other automakers were hesitant about draining technology and quality control and confined themselves to the assembly of finished cars. GM's PATAC (Pan Asia Technical Automotive Center), which is a joint-venture R&D center, is an independent automotive research development company, and aims at reducing the ratio of contracts from SAIC to 1/3 in the future.

Another feature of GM's strategy is that the company adhered to the basics of the world automotive industry to build up an in-house sales network and to put high priority on customer service and communication. The long-term nature of the company's strategy can be seen in the appointment of Taiwanese and others with abundant experience to secure an unshakable share even when full-scale motorization arrives. On the other hand, GM's aggressive introduction of new car types in the

Chinese market raises the question of whether the company could after all recover its investment in China and whether it will be able to earn high returns on a long-term basis.

•Toyota Motor (Japan)

Toyota Motor engages in automobile sales in 160 or more countries in the world, and overseas production at 46 bases in 26 countries. In 2003, Toyota sold about 650 automobiles, of which 500,000 were sold in Asia excluding Japan. However, Toyota's car sales in China have only reached 100,000 automobiles, or less than 1% of the market. Toyota's production bases in Tianjin, site of Tianjin Toyota its core base, Szechwan, and Guangzhou, are not comparable in size to those of competing foreign auto manufacturers, and so it plans to develop bases in the future. Toyota manufactures small cars in Tianjin and commercial vehicles in Szechwan. In addition, it has established training centers in Tianjin and Guangzhou.

Toyota's basic concept of operations in China is: (1) to create a system to supply products from the nearest base by developing production bases; (2) to have completely local procurement; and (3) to minimize product distribution costs. Toyota has recognized China, as one of the world's growth markets and plans to develop operations by enhancing bases in the future. It will focus on small car sales in the near term, and then actively market many models, including introducing mid-end models and luxury cars, such as Corolla (class) and Crown, in the future. To this end, Toyota aims to establish its brand name in China by creating a full lineup system, with the target of a 10% share of the domestic market. This is to be promoted not only by expanding its own operations but also by strengthening the business relationship with the China FAW Group. Furthermore, ahead of the conclusion of FTAs with ASEAN countries, business expansion based on a division of functions between Japan and ASEAN countries is a future challenge to be studied. Specifically, Toyota will study the possibility of establishing mutually complementary relationships with its production bases in ASEAN countries covering not only trade, such as trade of parts and finished cars, but also R&D. However, such relationships assume that Japan remains an important production base in the future as well. Toyota will keep a 3 million vehicle per year production level there and manufacture vehicles for the domestic market as well as export models for overseas markets including China. In addition, for

R&D activities, it will emphasize domestic production as core base for development of vehicles and technology for global reach. The company recognizes that close relationships with parts suppliers are indispensable for the development of automobiles. As a result it has no choice but to focus its development activities in Japan, where it has existing relationships with a large number of supporting auto parts suppliers.

Compared with GM, Japanese auto manufacturers' entry in foray on the Chinese market fell behind. In recent years, however, Japanese carmakers, including Toyota, Honda, and Nissan, in China have been actively expanding business there. GM sticks to the local production, and has even established an R&D function in China, as well as developed its own sales channels to create a local sales function. Monitoring GM's lead, Japanese auto manufacturers are expanding operations. Given their geographic proximity, Japanese companies expect to expand their operations in China not only by using bases in China but also by relying on established production bases in ASEAN and in Japan. This is an advantage of Japanese auto manufacturers compared with European and U.S. auto makers and it will become a primary factor in differentiating Japanese auto manufacturers from other foreign competitors in developing operations in China.

•Motorola (United States)

Motorola responded to China's reform and liberalization policies and formulated strategies which definitely target China's domestic market. Motorola entered the market by determining certain investment fields and investment amounts with a clear vision from the beginning of the kind of entity it should become in China.

One feature of Motorola's strategy is that the company identified telecommunications as an important field that the government of any country is concerned about, and then put the highest priority on reconciliation with the central government. Motorola put great effort into "insiderization", for example by establishing a joint committee with the government Electronics Department, by setting targets for local content, and by carrying out philanthropic activities including construction of elementary schools.

Although heavy competition with local manufacturers was unavoidable, Motorola went on the offensive in the semiconductor business with its development platforms which were devised to differentiate the company from local makers as well as to increase added value. In the mobile phone business, it adopted commodity strategies focused on high-end users. For example, according to an observer at NRI Shanghai, a Motorola cellular phone priced at about 90,000 yen (in 2002) became highly popular among sophisticated users and wealthy people because of its innovative design.

Motorola possesses world-class technologies in global procurement rules and channel policies which it can apply universally. It also has an excellent marketing strategy. However, the factors that most clearly contributed to the company's success in China were its definite and clear-cut investment policy and its insiderization efforts.

•Siemens (Germany)

Siemens China, headquartered in Beijing, has become a gigantic business group with 47 affiliated companies and more than 20,000 employees. Siemens has a presence in all sorts of business areas including automation and control equipment, electric power equipment, traffic systems, medical devices, and consumer electronics. Whenever NRI Shanghai receives a request to conduct a corporate survey in China, Siemens is the one company whose name never fails to be mentioned as a benchmark company.

Being a business giant, Siemens emphasizes product development in China and it is actively involved in joint research with universities. From the viewpoint of channel policies, Siemens is presently shifting from sales agents to direct-sales in order to accurately respond to customers needs. In the key automation and control business, Siemens uses its capabilities to offer solutions to customers as the source of its competitive edge. Although it has a large presence in China as a cellular phone manufacturer the company used to play second fiddle to Nokia, Motorola, and others in market share, but now it is eager to regain lost ground by developing new sales channels such as volume home electronics distributors.

In its business management, Siemens adopts a technique to consistently improve its employee benefit system by benchmarking its practices against competitor companies in order to secure and maintain competent personnel, and it enjoys considerable brand name as a company in China.

•Hewlett-Packard (United States)

China's communications industry is still overspecialized in hardware production, but recently, the country has become excited over promoting growth and development of the information industry with primary emphasis on software and services. In China, as in the global market, Hewlett-Packard (HP) focuses not only on the sale of hardware but also on the establishment of a customer service business. From its entry into China, the company adopted a business model mainly based on direct sales without using agents. Because HP attaches high value to providing solution services to customers, it offers hosting services and makes a strong effort to provide after-sale service.

HP does not seem to have adopted any policies specifically for doing business in China. The company's direct sales model may prove difficult to implement in China, where distribution channels are still immature and people have little awareness of value for service. Nevertheless, HP could earn high returns in the future if this sales strategy appeals to Chinese consumers and if it can take the lead in China's IT service market.

•Sony (Japan)

Sony's started its business development in China by setting up a local headquarters company which has responsibility for management and for strategic planning to establish Sony as a recognizable brand name. In addition, Sony has concentrated specialized operational functions in Shanghai and centralized practical business operations in its Shanghai base, which has separate manufacturing service and sales divisions and conducts strategic planning and management.

While the sharing of functions between the global headquarters in Japan and the operational base in China has not yet fully clarified, establishing self-sufficient functions in primary areas worldwide is a precondition of Sony's overseas strategy. Nevertheless, in China because of problems such as the lack of protection of intellectual property, Sony recognizes that it is difficult to establish a full complement of functions that center on R&D.. Sony has so far actively promoted technology transfers comparable to its European and U.S. competitors. This is seen in the company's transfer to each local production base production technology and design functions to modify specifications for local markets, which enabled it to take advantage of production in China where low-cost parts are readily available. But Sony considers it difficult to transfer basic development functions to China because of the intellectual property issue. In addition, it leads other Japanese companies in terms of localization, but lags behind European and U.S. companies in terms of promoting local staff to management. A Japanese national basically holds the top position at each of Sony's bases in China. Sony lags also behind European and U.S. companies in development of sales channels, since it has not yet actively created such channels in cooperation with local companies.

In the future, Sony should aggressively promote localization of the Shanghai unit, which is already a local operational base, by developing sales channels while further enhancing collaboration with local companies there. Furthermore, clarifying the division of responsibility between global headquarters and the headquarters in China is the main challenge for the future expansion of the company's operations in China.

•Matsushita Electric (Japan)

Matsushita Electric's consolidated sales stand at 6.9 trillion yen, of which 3.5 trillion yen is generated overseas. Asia accounts for the largest portion, 40%, of the company's overseas sales. Matsushita recognizes Asia as a market and as a production base. In Asia as market, Matsushita is exposed to fierce competition both with Japanese companies and with Korean and Chinese companies, and how Matsushita competes with those rivals is its challenge. In Asia as production base, Matsushita aims at region-wide restructuring and shifting of its production bases to reduce manufacturing costs and lead times. Matsushita has about 150 bases in total in Asian countries excluding Japan, of which 50 or more are located in China, including more than 40 manufacturing core units, three R&D companies, headquarters, and distributors.

Matsushita has so far considered China and ASEAN countries as separate operational regions in Asia and worked out separate strategies under which operations were developed in cooperation with the headquarters in Japan (for trade and investment). Since 2000, however, it has recognized Asia as one region and formulated an "expanded Asian strategy" through collaboration between the local headquarters in China and in the ASEAN countries. The Asia regional strategy is aimed at strategic planning for products, parts, and even R&D, as well as operations, while keeping close coordination between China and ASEAN countries. That is, competition between units in China and ASEAN countries, which also functions as risk hedge as in the case of SARS, will improve Matsushita's manufacturing competitiveness overall. The headquarters in Japan has been assigned a role to reflect the result of such mutual collaboration in global strategies. .

In the future, Matsushita will enhance its competitiveness as a whole by further promoting China-ASEAN collaboration based on trends in regional integration, such as AFTA and FTAs between China and ASEAN. Matsushita plans to enhance its sales channels and increase its marketing capability in China through closer business relationships with local companies, as can be seen in the company's tie-up with TCL.

•DuPont (United States)

As with HP, there appears to be nothing unique about DuPont's strategies for China. The company focused its sights on China's gigantic domestic market, established a full-scale R&D center, and enthusiastically carries on product development and technical development to meet the needs of Chinese customers. In contrast to typical Chinese business practices, DuPont devotes a strong effort on training and so-called "humanity education" to encourage employees to think for themselves, which is said to be an easy thing for Chinese people to accept. On the human resources aspect, too, DuPont employs sophisticated, competent people with experience and managerial capabilities at the headquarters and in China. this gives the strong message that the company did not enter China regarding it as a special market, but rather from the outset thought of it as one part of a big global field.

•Procter & Gamble (United States)

To express Procter & Gamble's (P&G's) China strategies in one word, it is "localization." P&G has concentrated on penetrating the market and expanding its market share to increase its business in China through channel policies and marketing activities, without paying particular attention to such strategies as investment policies, insiderization, or local product development..

P&G's overall corporate strategy is to sell common products throughout the world at locally suitable prices without focusing on specific segments because of the characteristics of its products.

Consequently, it particularly emphasizes agents as the key to market penetration. P&G prepares a sales management model, compiles it in a manual, and carefully guides its sales agents. At the same time, the company does not mind nurturing wholesaler functions and physical distribution functions of agents as well as retraining agents who have low profitability ratios.

In addition, in order to improve product recognition, P&G carried out marketing activities (road-show activities) throughout the country after doing meticulous market surveys and consistently increased market share.

Recently, P&G has begun to take serious action against counterfeit products, which have been mushrooming. As a result of increased market share it is fighting fakes by cutting off specific distribution routes and joining hands with others in the industry in campaigns aimed at preventing product counterfeiting. .

•Toray (Japan)

Toray has unified its regional strategy in China in recent years and established a regional administrative headquarters in Shanghai to implement prompt decision-making. Up until now, individual divisions handled their own business operations in China, but with the enlargement of Toray's production bases and the growth of the domestic market, the company found it necessary to adopt a more efficient and strategic stance in China. It established the China headquarters in order to oversee the operations of its various business divisions in China. However, the new headquarters is not yet performing this intended purpose and is realizing that capability while striving to coordinate the divisions.

Previously, the strong feeling in the company was that each business division should simply transfer its business practices from Japan to China, but now the company aims to adopt product development and production methods that are suited to the characteristics of the market, by accommodating its way of doing business to Chinese culture. Moreover, this strategy requires promoting the localization of employees and strengthening cooperative relationships with local businesses. At present, the China headquarters is drafting intermediate- and long-term business plans, and it appears that these issues will be central to the plans and that they will lead to favorable developments. In particular, in working toward the localization of employment, the company should refer to the approach of European and American businesses.

•Shiseido (Japan)

Shiseido's operations in China started with the establishment of a joint-venture in Beijing at the beginning of the 1990s. The company sold quality cosmetics through department stores with wealthy people being the main target. Later, it set up another company in Shanghai to promote a brand targeted at middle-income consumers. As it is difficult to obtain import permit for cosmetics, they are produced locally. Shiseido used the know-how in sales, training, and customer service that it had acquired in Japan as well as in Korea and Taiwan to form a specialty stores channel in China. The business results have also been improving steadily every year. Physical distribution and the management of retail shops are implemented by domestic agents in China and the company has not had any trouble collecting receivables from these retail franchisees. Shiseido is actively pursuing localization through the employment of local sales people as well as the utilization of local agents for the collection of the money and physical distribution. In addition, production and product development are carried out locally under the instruction of Japanese staff. This considerable transfer of responsibility to local people is thought to be in important factor in Shiseido's success in China.

Having the two separate corporations in Beijing and Shanghai is thought to be inefficient for Shiseido. Shiseido is expected to eventually unify the two JVs in order to gain efficiency and synergies to enlarge its business. However, it must immediately and positively take advantage of economies of scale to tackle the problem of establishing its brands within China, since Shiseido's brand recognition is somewhat weaker than that of its European and American competitors.

•Nestlé (Switzerland)

One feature of Nestlé's global strategy is the great importance the company places on the brand. It expands business by acquiring promising brands and listing them under Nestlé's banner. When Nestlé realized it was taking too long to infiltrate the coffee culture into China, it adopted a product diversification strategy and bought Chinese brands offering such products as mineral water, milk, and seasonings. Although Nestlé can not be said to have succeeded in China, the company perceives

China as a market that it must take possession of as a global food business, and it will continue pursuing aggressively the expansion of "Sparrow 's Nest" (Nestlé) brand by its purchasing strategies.

•Wal-Mart (United States)

Even though Wal-Mart is the world's largest retailer, in locating its stores it places the most importance on the United States. In terms of product procurement, however, Wal-Mart takes a global point of view, and it already procures US$15 billion a year from China.

The key to Wal-Mart's business success is product procurement and sales management, and it is therefore critical for the company to appraise its suppliers and to build up relations with outstanding ones. Wal-Mart's store deployment has not yet got into full swing in China but there are clear indications that the company is aggressively involved in building relations with the central government and suppliers with its eyes firmly focused on the future deployment.

At the present moment, we are unable to say anything about factors in Wal-Mart's success, but we wonder what kind of store deployment strategies the company will take in the Chinese market. With chain-store-operation of Chinese-affiliated supermarkets spreading rapidly. the time left for full-scale penetration into the market is extremely short.

Success Factors for Foreign Companies in China

The main features of the China strategies of the U.S. and European companies in these case studies are shown in Chart 1 and those for Japanese companies are shown in Chart 2.

[What does "discretion" mean in the cell for DuPont-Business Management in Chart 1?[

Chart 1 Summary of success factors for European and US companies in China

	Investment policy	Insiderization	Product development	Channel policy	Marketing	Business management
Motorola	2 + 3 + 3 Vision: • establish 2 bases—Beijing and Tianjin • promote 3 $10-billion activities— accumulated investment, accumulated domestic procurement, and annual production • in 3 strategic areas such as cable and wide- area communications	• Setting up the "Policy and Strategy Planning Department," to lobby the government; establishing a joint committee with the government electronics department. • Act as a domestic corporation by intentionally raising domestic procurement share. • Engaging in philanthropic activities, such as building elementary schools.	• Shifting to higher-value-added products (semiconductors) by selling development platforms. • Securing profitability by shifting to high-end users (mobile)			Setting global procurement standards to limit individual discretion
GM			Establishing a full-scale R&D center as evidence of aggressive marketing to meet customer needs and technology transfers.	• Sticking to in house sales channels • Emphasizing price controls.	• Transferring experienced sales employees from Taiwan, etc. • Emphasizing in-house marketing activity, such as communication marketing on the Web.	Utilizing a universal IT platform
DuPont	Investing $100 million annually to accelerate business		Establishing General R&D Center to shorten the development period and promote business tie-ups.			• Emphasizing humanity education by providing employees with discretion • Dispatching 15 sophisticated, competent employees from around the world to China. • Including employee training plans in budget
Siemens	Giving full responsibility to local headquarters	Developing Chinese products in conjunction with universities.		• Promoting shift to direct sales, • Emphasizing share, • Making provision of solutions to customers basis of competitiveness.	Diversifying sales channels, such as by using full-service appliance distributors (mobile)	Benchmarking personnel and welfare programs against rival companies
HP			• Targeting both product sales and service businesses • Enhancing after-sale "Golden Cup Service" • Providing services on its own emphasizing customer satisfaction	Selling PCs directly to customers Differentiating through improved customer service.	Establishing a "hosting business" system that assigns one person to be responsible for each customer	
P&G				• Creating "regional sales offices" with wholesale and distribution functions by developing agents • Providing detailed manuals to make agents fully aware of the sales management model i. • Re-training agents whose profitability is declining as regards sales, financial, and distribution functions.	• Taking actions based on detailed market research • Targeting brand penetration through road shows • Liquidating and integrating agent channels through which fake products are easily sold • Implementing industry-wide measures to block counterfeit products	
Nestle			Diversified products after failed attempt to introduce coffee.		Emphasizing brands in business acquisition expansion strategy	
Wal-Mart	No investment until favorable conditions are offered, while keeping good relationship with the government.	Annual purchases totaling $15 billion	Focus on developing and maintaining good supplier relationships	• Establishing a distribution center • Paying close attention to price controls • Making efforts to develop suppliers		Utilizing a universal IT platform

Chart 2 China Strategies of Successful Japanese Firms

	Investment policy	Insiderization	Product development	Channel policy	Marketing	Business management
Daikin				Nurturing distributors Advance payment system	Specializing business products	Thorough quality control
Suntory			Developing Chinese products	Establishing in-house sales channels		
SANKYU				Investing in development of bases		
Shiseido				Training beauty consulting staff Selling directly to department stores Developing specialty shops	Developing Chinese brands targeting high-end users	
Kyocera						Japanese quality standards

Comparing the U.S. and European firms with Japanese firms, we can make the weak generalization that European and U.S. companies utilize "visionary" strategies, including investment policies, insiderization, and product development, while Japanese companies tend concentrate on "operational" strategies such as sales channel creation, marketing, and business management. This distinction is depicted in Chart 3, which highlights the cells where each foreign company focuses its China strategy. The difference in strategies suggests two explanations for Japanese companies' comparative weakness in China and provides a basis for understanding how Japanese companies can strengthen their China strategies in order to achieve greater success.

Chart 3 Comparison of European/US companies with Japanese companies

	Investment policy	Insiderization	Product development	Channel policy	Marketing	Business management
Motorola						
GM						
DuPont						
Siemens						
HP						
P&G						
Nestle						
Wal-mart						

	Investment policy	Insiderization	Product development	Channel policy	Marketing	Business management
Daikin						
Suntory						
SANKYU						
Shiseido						
Kyocera						

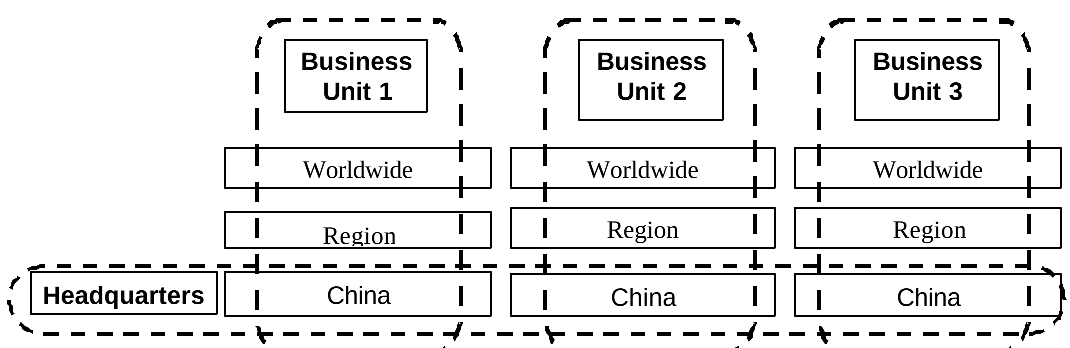
Hara san is going to revise later.

First, looking at China mainly with a visionary eye, European and American companies tend to adopt an initial business stance in China that differs from the operationally oriented Japanese companies. From the outset, European and U.S. firms clearly approach business in China as an investment and they tend to determine whether to launch operations based on ROI in a top-down manner. First, they appoint a person responsible for the China business; then this person estimates the required investment and expected returns; based on this background, the company clearly defines the technology and human resources necessary to start-up the business and, finally it introduces them to China. This dynamic strategy is an essential characteristic of European and U.S. companies. It holds an important message for Japanese companies that target becoming major market players in the future, although it cannot necessarily be said to be the appropriate China business strategy for all times.

Second, Japanese companies' relative weakness in visionary policies and their relative strength in “operational” strategies is related to the greater emphasis they place on actual work experiences as compared with European and American businesses. Reflecting the Japanese philosophy that one cannot manage without familiarity with on-site operations, it is typical for top Japanese executives to have worked their way up from jobs at the production or sales site. On the other hand, in Europe or America, executives even move from one industry to another so they often have no previous experience with the particular kind of business they are managing. This European or American management style reflects a philosophy that that management depends on understanding operations at the site without actually experience at the site. This kind of management is only possible, however, when the sharing of work among various sections and the cooperative relations among them have been clearly defined. Meanwhile, the style of management that supports the operational strengths of Japanese companies—with executives understanding their particular operational roles and complementing each other? makes it difficult for them to devise visionary strategic plans. From now Japanese companies could develop more robust business operations in China by strengthening the “visionary” strategies in addition to their “operational” strategies.

Finally, the case studies revealed that European and U.S. companies tend to locate more authority in China than Japanese companies do. In many European and U.S. companies, operations in China fall under the combined responsibility of the global business unit and the local headquarters, as shown in chart 4.

Chart 4 Typical organizational structure of European and U.S. companies in China



This matrix-type organizational structure typically involves the following distribution of responsibility:[1] Each business unit in the home country (head office) is responsible for production, sales, and investment by its line operating in China.

[2] The China headquarters oversees personnel, general, and financial affairs and has authority in this regard.

[3] The China headquarters has the final say in case of differences of opinion.

Japanese companies also usually have a China headquarters function, but unlike the situation with European and U.S. firms, it is usually a simple local agency engaging in information gathering and coordinating relationships with Chinese corporations and it is considered to have no authority to administer personnel policies in many cases. In addition, in the case of a difference of opinion between the China headquarters function and the head office, Japanese companies follow a characteristic system of consultation and compromise between the head and local offices to arrive at a consensus decision. Generally speaking, then, Japanese companies have weak functions to control business in China in terms of "global personnel policies" and "decision-making function." This lack of localized responsibility is a factor contributing to Japanese companies' failure, so far, to establish themselves as major players in China. Japanese companies can surely increase the efficiency of their operations in China, as well as elsewhere, by clearly defining the responsibilities of on-site personnel and headquarters managers and by using more local resources based on these responsibilities.

On the other hand, location gives Japanese companies unique assets with respect to business in China that other foreign companies lack, and they could use such advantages as proximity to the home office in Japan and existing relationships within the ASEAN region to improve their performance in China. Regional networks should enable Japanese companies not only to handle products and components more easily, but also to enjoy smoother human relations, by employing overseas Chinese, for example. As a matter of fact, some of the companies examined in our case studies are trying to consider China and ASEAN as a unified entity, and their future business development plans will be made on a region-wide basis. Their location in Asia can be said to be the great advantage of Japanese businesses in China as compared with the situation of European and American businesses.

FUTURE CHALLENGES FOR THE CHINA AND EAST ASIA STRATEGIES OF JAPANESE COMPANIES

Establishment of East Asia-wide strategies to enhance profitability

To enhance their competitiveness in East Asia, Japanese companies must compile strategies for each country and each product by understanding market trends and realizing optimal procurement. In addition, they must also clarify their policies for the entire East Asia region as a whole, such as setting up bases in the right locations. In some cases the local offices are not aware of the stance of the head office stance or the head office does not explain its regional policies to them.

In addition to compiling strategies by country, to maximize earnings in East Asia, it is important for Japanese companies to achieve global business restructuring in the region. To this end, they must develop a system to optimize the smooth restructuring of business in the area by delegating more authority to local headquarters, while enhancing cooperation with the head office.

Division of functions between domestic and East Asian offices

In the manufacturing sector, many companies procure so-called functional components in Japan, and assemble them together with locally procured parts in local areas. These companies face the challenge of properly dividing functions between their domestic offices and bases in East Asia and enhancing corporate competitiveness so as to secure earnings in East Asia. With R&D, in particular, increasingly designs are being developed locally, based on local market needs. In order to maintain and strengthen its competitiveness in the next decade, Japan must strive to advance the level of technology, including improving its capability to develop advanced core technologies as well as technology having a comparative advantage.

Optimal allocation of management resources including human resources

In order for local companies in East Asia to adopt business strategies promptly and effectively, local management capability and technology should be enhanced. The challenge for Japanese companies with bases in Asia is to develop and use human resources in each country capable of managing businesses in accordance with the local culture.

To this end, they must recruit and develop excellent local human resources. In addition, Japanese companies also need to optimize their East Asia-wide allocation of human resources by promoting local staff and localizing management in an optimal manner.

Further enhancement of competitiveness in areas of comparative advantage

In East Asia, Japanese companies should maintain and expand their competitive advantage by actively promoting research and development activities while responding to operational needs. In addition, when transferring technology, it is important that they avoid outflow of technology and know-how, which are the source of their competitiveness. While technology transfers by Japanese companies make a significant contribution to the development of East Asian economies, it is essential to the companies that they protect their rights to intellectual property and secure the royalty income due them.

Development of global logistics

Amid the progress of globalization, challenges such as cutting distribution costs, reducing lead time, and drastically liquidating inventory require not only effort in each country but also the realization of region-wide supply chain management and global logistics. Japanese companies engaging in manufacturing in East Asia, where materials, such as raw materials and parts, account for a large portion of product costs, must work to create an optimal effective supply chain throughout East Asia by reducing such costs and shortening lead times.

Restructuring sales channels

Japanese companies also need to restructure their sales channels in East Asia by conducting detailed market research, by selling products that adapt to market needs flexibly and promptly, and by enhancing their customer support system, including response to complaints and after-sale service.