

Your Career

PROF. DR. NORIFUMI KAWAI, MPIA (Pittsburgh)

International Business & Trade
Università degli Studi di Bergamo
Dipartimento di Scienze Aziendali
Bergamo, ITALY

Your Career

■ A Core Message from Mr. Treggiani (13.05.2024)?

Business is NOT an individual sports !

Management in Japan

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- ▶ **1. Introduction**
- 2. Japanese Business System
- 3. Comparative Advantage
- 4. Continuity & Change
- 5. Conclusive Remarks



Map of Japan



Basic data (2022)

Population: 125 million

Population growth: -0.4%

GDP: US\$ 4.26 trillion

GDP per capita: US\$34,017

GDP growth: 1.0%

Life expectancy: 84 years*

Unemployment rate: 2.6%

Inflation rate: 2.5%

Source: World Bank; * indicates data in 2021.



1. Introduction
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Japanese Business System



■ Culture & Key Historical Influences

- ❖ Japanese firms exist to serve **society & their employees**.
- ❖ **DEBT** instead of firing employees in Japan's lost decade of low economic growth
- ❖ **WHY** do Japanese business emphasize the concerns of society & employees? (**History matters !**)
 - Introduction of **a Confucian-style four tier social caste** in the Tokugawa era (*i.e.*, **samurai** was the **top** while **merchants** were the **bottom**.)
 - Commodore Matthew Perry in 1853 → (1) technological underdevelopment & (2) the fear of colonization
 - Meiji Restoration in 1868, **富国強兵** (**Rich Country, Strong Army**)
 - **Yoshida Doctrine**: **Economic growth** > Defense by the US.



■ Employment Security

- ❖ Employer provides **job security** while **employees cooperation**.
- ❖ **Lifelong employment** has a complementary relationship with the main bank system, the *keiretsu* system, & employee participation.
- ❖ The **insider-centered character** of Japan's permanent employment system = the basis of '4' types of HRM institutions:
 - (1) **Human capital development:** OJT, quality circles (small group activities to identify, analyze & resolve issues), job rotation.
 - (2) **Compensation system:** Seniority-plus-merit wage, internal promotion, bonuses, corporate pensions.
 - (3) **Employment adjustment methods:** Hiring freeze, *tenseki & shukko*.
 - (4) **Internal enforcement & coordination mechanisms:** Enterprise unions, workplace socialization.



■ Barriers to Labor Mobility

- ❖ Older workers are highly endowed with **FIRM-SPECIFIC** skills.
→ It makes it difficult for them to apply such skills to other firms.
- ❖ The **SENIORITY**-based compensation system does not motivate older workers to move to other firms → A deterioration of wages.
- ❖ A strict **LIMITATION**.
- ❖ Social costs arising from lifetime employment are the **STIGMA** to leave the company.
- ❖ Quitting a job & looking for another job indicate a **low** level of **corporate loyalty** → It thus results in **LOWER WAGES**.

Difficulties in being reemployed !

Japanese Business System



■ Identity

- ❖ A relatively **collectivist** sense of identity.
- ❖ Institutional **conformity**: *‘The nail that stands out gets hammered in.’*
- ❖ Many employees spend more hours with their **colleagues** than with their families.

■ Authority

- ❖ A sense of **community**, a desire for **harmony & consensus** in decision making.
- ❖ *Sempai & Kohai* (**senior & junior**).
- ❖ Social position can be a function of **educational attainment**.

Japanese Business System



■ Government

- ❖ The role of the Japanese government in the economy is to provide **stability & guidance**.
- ❖ **Market forces** are perceived as potentially **harmful**.
- ❖ To **limit competition** through *formal regulations* as well as through *administrative guidance* (e.g., *gyosei shido*, *tsutatsu*).
- ❖ **Industrial policy**: Encouraging firms to experiment with new technologies via *R&D consortia*.
- ❖ Policymaking: extensive **consultations** of government officials, deliberation councils within ministries (*shingikai*), industry associations => **No consensus, huge policy deadlock.**



■ Business Environment: Human Capital

- ❖ **High school: 90%**, **College: 40%** enter college.
- ❖ Japanese students are ranked **2nd** in natural sciences, **6th** in mathematics & **14th** in reading in a 2003 OECD study.
- ❖ **Drawbacks:**
 - **Memorizing facts** over critical & creative thinking.
 - **A lot of pressure** on students to **enter good schools & cram schools**.
 - **Weak tertiary education & vocational training programs**.
- ❖ **Enterprise unions** = Close alignment with those of the company.
 - Management sees unions as partners in running the company.
 - The annual ‘**spring offensive**’ (*shunto*) is just **ritualistic**.

Japanese Business System



■ Ownership

❖ About **27%** constitute long-term shareholdings.

Germany		Hong Kong		Japan		Korea		US	
Shareholders	88%	Shareholders	60%	Society	88%	Employees	80%	Shareholders	93%
Employees	82%	Society	50%	Employees	82%	Shareholders	73%	Society	71%
Society	71%	Employees	50%	Shareholders	76%	Society	67%	Employees	71%
Customers	41%	Customers	30%	Customers	59%	Stakeholders	7%	Customers	57%
Stakeholders	29%	Stakeholders	10%	Stakeholders	47%	Customers	7%	Stakeholders	21%
Suppliers	24%			Suppliers	18%			Creditors	7%
				Creditors	6%				
				Distributors	6%				
	≥2.00		1.75-1.99		1.25-1.74		1.00-1.24		<1.00

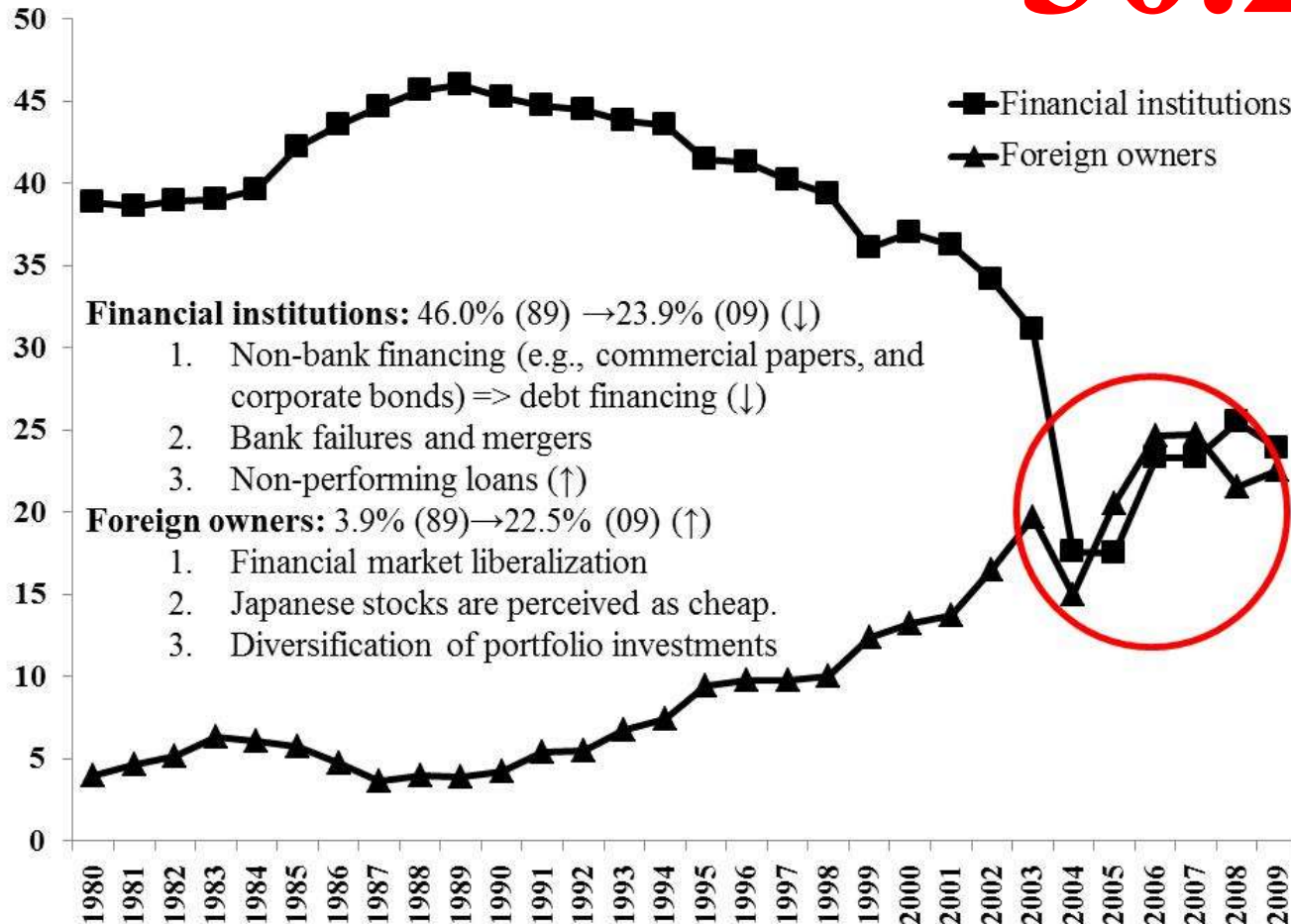
❖ Characterized by (1) **cross-shareholdings**, (2) **interlocking directorates** & (3) **intra-group purchasing**.

Japanese Business System



Foreign Ownership

30.2% (2020)



> 60%



Source: Tokyo Stock Exchange.



1. Introduction
2. Japanese Business System
- ▶ 3. **Comparative Advantage**
4. Continuity & Change
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Comparative Advantage



■ Vertical Keiretsu Networks

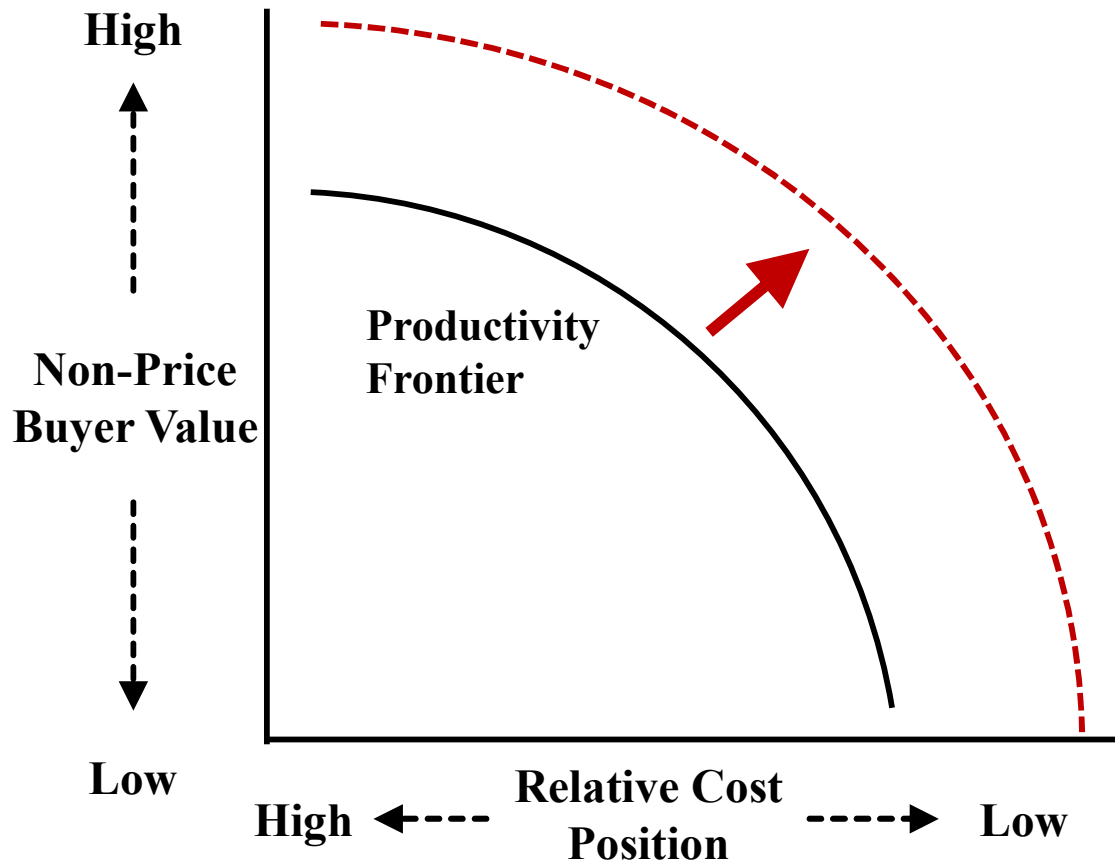
	Car Assembler	Car Parts Suppliers
Benefits	<ol style="list-style-type: none">1. well-established supplier relations2. dissemination of corporate identity3. <u>less opportunistic risks</u>4. streamlined organization by externalization of various operations5. production flexibility and adjustment	<ol style="list-style-type: none">1. upgrading of technical capabilities and managerial know-how2. a high degree of sales and demand stability3. <u>effective communication and coordination in product development</u>4. long-term contract
Costs	<ol style="list-style-type: none">1. pressure from foreign competitors2. slow technological innovation3. financial burden to assist own suppliers4. <u>cost rigidity</u>	<ol style="list-style-type: none">1. <u>less independence</u>2. dependence on specific car assemblers3. less adaptable to market environments4. managerial and operational control by car assemblers5. <u>less opportunities to learn</u>

Source: Own illustration based on Tabeta (1998), Gerlach (1992), & Lincoln & Gerlach (2004).

Comparative Advantage



Japanese Model



Source: Porter, Takeuchi & Sakakibara (2000).

POINTS

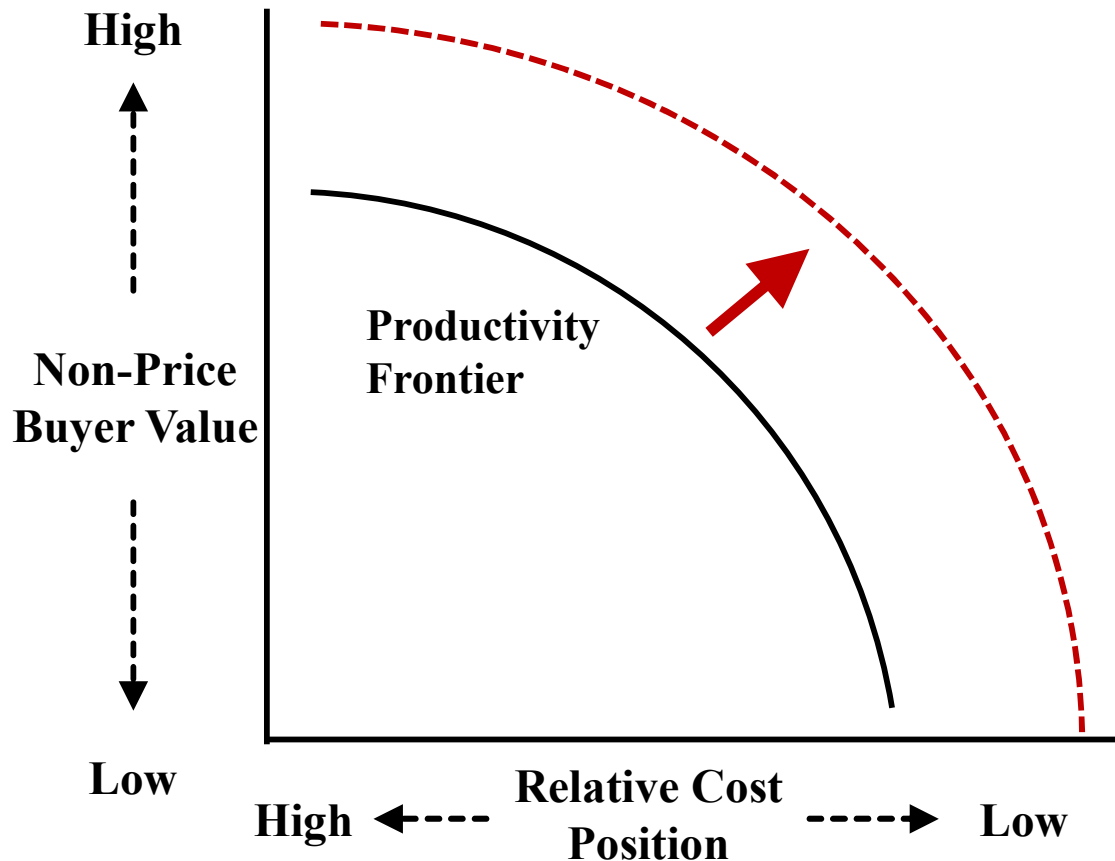
~1990s

- (1) “**High**” quality goods & services at **low** cost
- (2) “**JIT**” low inventory practices.
- (3) “**Employees**” as a source of competitive advantage
- (4) “**Lifetime**” employment
- (5) Leadership by **consensus**
- (6) “**Close, long-term supplier relationships**”, with continuous exchange of information & employees
- (7) “**Long-term**” goals → Market share > ROI

Comparative Advantage



■ Japanese Model



Source: Porter, Takeuchi & Sakakibara (2000).

POINTS

NOW

- (1) “**Unique**” strategy
- (2) Superior “**marketing**”
- (3) “**Global human capital**”
- (4) “**Open innovation**”
- (5) Promoting “**corporate entrepreneurship**”
- (6) Globalization of “**corporate missions**”
- (7) Internationalization of “**higher educational institutes**”
- (8) “**Choice & focus**”
- (9) “**Power balance**” between subsidiaries & headquarters



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Continuity & Change

■ Japan's Corporate Governance

Japanese Government Pushes for Government Reform



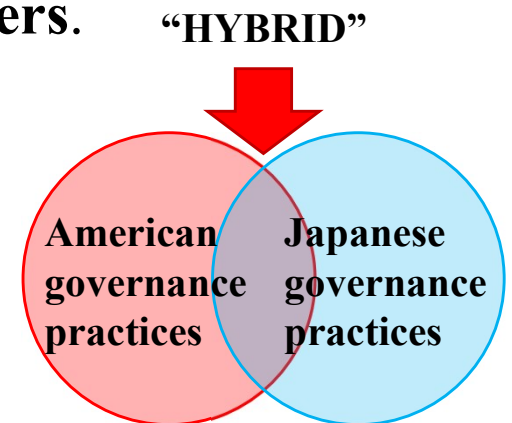
■ Japan's Corporate Governance

❖ Cozy governance mechanisms = Slow to restructure

- Few independent board members → Few radical strategic changes.
- 274 director positions (out of 40,000) held by foreigners in 2015.
- Cross shareholdings & closely affiliated “outside” auditors.
- Limited performance-based remuneration.
- Enormous retained capital (**US\$1.9 trillion = Italy's GDP**)

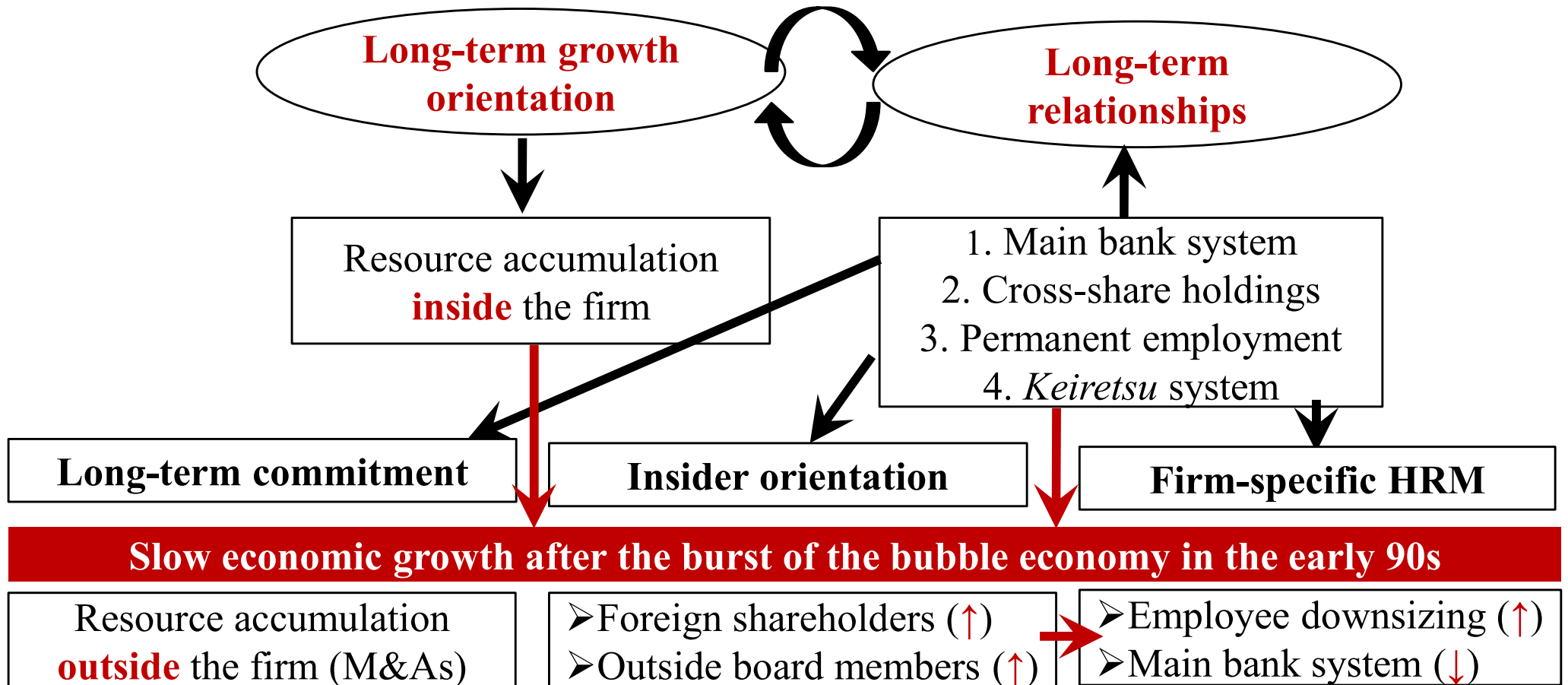
❖ Governance reform by Shinzo Abe (NOT coercive)

- Improvements in communication with shareholders.
- Effective responses to shareholder concerns.
- Focus on shareholder values.
- Removal of anti-takeover provision.
- Promotion of gender diversity in leadership.
- Board & auditor independence.





■ Japan's Institutional Complementarities



Source: Asaba (2004).



■ The Declining Role of the Main Bank Relationship

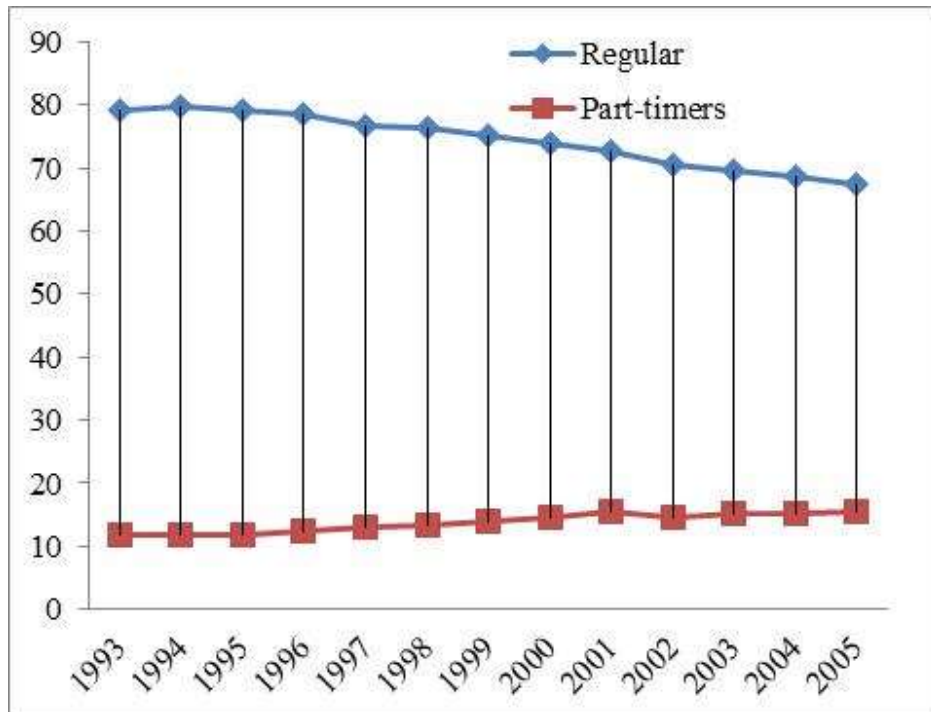
- ❖ **NOT ONLY bank loans BUT ALSO shareholding** by financial institutions.
- ❖ The main bank plays a role in **monitoring** its client firms & intervene in their management practices by sending managerial staff to them if necessary (**Relational contingent governance**).
- ❖ Does the main bank relationship **persist or decline** with the globalization of capital markets?
 - Non-bank financing (e.g., commercial papers, corporate bonds) (↓)
 - Bank failures & mergers
 - Non-performing loans (↑)
 - Foreign ownership (↑)
 - Some firms retain strong bank ties, while others loose them.

Continuity & Change



■ The End of PES?

Percentage of Employees by Type



Source: Jackson (2007: 285, 290); Keizer (2009).

Method of Employment Adjustment

Restricting overtime	14%
Shorter hours	3%
Cut in mid-year hiring	16%
Reduction in outsourcing	9%
Reallocation	28%
Transfer to other companies	26%
Cut in hiring new graduates	44%
Reducing of non-regular employees	14%
Layoff	5%
Voluntary early retirement	28%
Others	2%

Type of Employment System

No merit pay, lifetime employment	8%
Limited merit pay, lifetime employment	34%
Merit pay, lifetime employment	43%
Merit pay, limited lifetime employment	2%
Merit pay, no lifetime employment	12%
Other	1%



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■ Key Points

- ❖ Japanese firms are controlled by their **employees** & run for the **benefit of employees & society** as a whole.
- ❖ **Cooperation within & across** firms & **with** other organizations.
- ❖ Japanese firms are **world leaders** in industries characterized by **incremental innovation**.
- ❖ The **government role**? **Ensuring order & guiding the economy**.
- ❖ **Change in Japan is slow** due to **high levels of social coordination**.
- ❖ For **foreign firms**, Japan has been **difficult to enter**. However, once established, foreign firms can be **highly profitable** in Japan.

Entrepreneurship in Japan

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Entrepreneurship in Japan



■ Opening Question

What is Entrepreneurship? Why Important?



■ Entrepreneurship

❖ Definition

- **Entrepreneurship** refers to the **creation of new value** by an existing organization or new venture that **involves the assumption of risk**.
- **New value** can be created in **many different contexts** as follows: (1) Start-up ventures, (2) major corporations, (3) family-owned businesses, (4) non-profit organizations, & (5) established institutions.

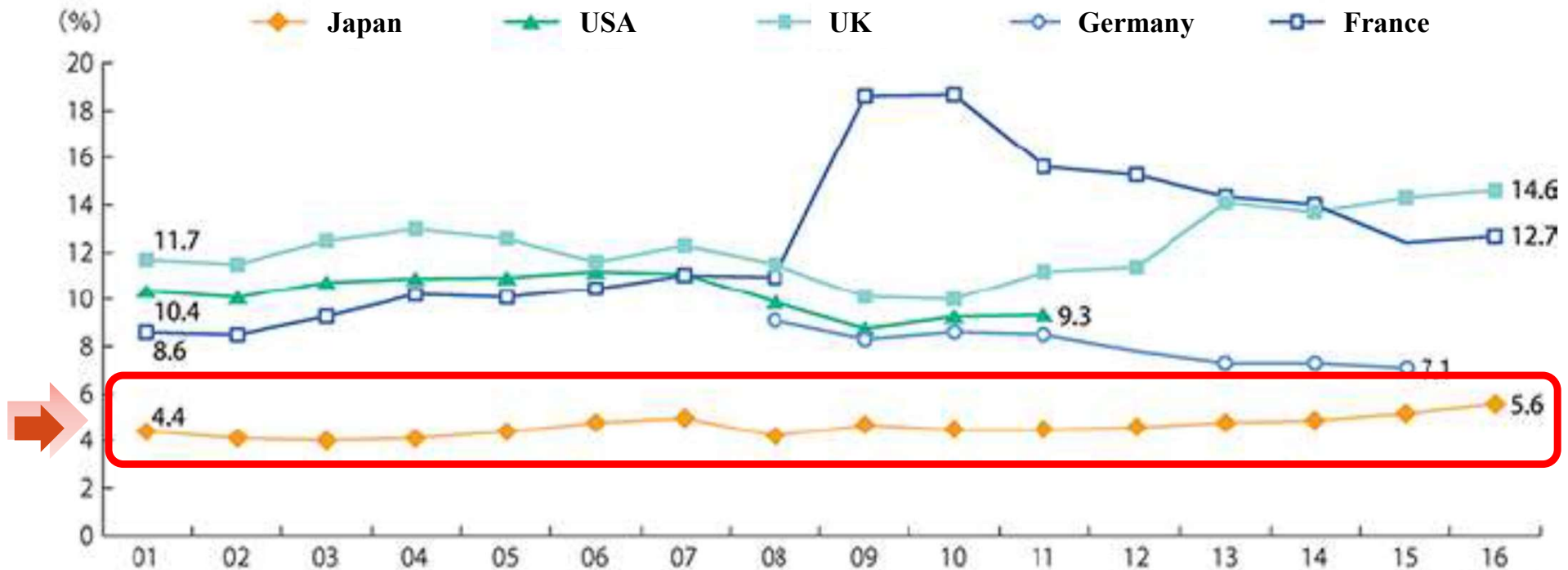
❖ ‘3’ Key Factors in New Value Creation

1. Entrepreneurial **opportunity**;
2. Entrepreneurial **resources**; &
3. Entrepreneurs’ **ability & willingness** to undertake the opportunity.

Entrepreneurship in Japan



■ Comparison of Business Start-Up Ratio in 5 Countries



Source: https://www.chusho.meti.go.jp/pamflet/hakusyo/H30/h30/html/b1_2_1_3.html (Accessed on 23.03.2020).

Entrepreneurship in Japan



■ Discussions

Why is Japan Lagging in Entrepreneurship?



■ '5' Critical Causes of Japan's Entrepreneurship Gap

❖ Cultural Factors

- The **Japanese culture** is one that **discourages risk-taking behaviors** or the **pursuit of unexploited opportunities**.
- ... tends to focus on the importance of **rules, tradition & customs**.
- ... emphasizes **conventionality, consistency, community, & relative risk aversion**.

❖ Societal Factors

- The **social status** of **entrepreneurs** in Japan is **not high**.
- The **typical Japanese parent** often does **not support** his or her child's aspiration of becoming an entrepreneur.
- They wish their children to **go to an elite public university** & join the **bureaucracy** or a **major keiretsu**, such as *Mitsubishi* or *Mitsui*.
- This conservative mindset is linked to **life-time employment**.

Source: Knowledge@Wharton. (2013). Finance: The Entrepreneurship Vacuum in Japan: Why It Matters & How to Address It.



■ ‘5’ Critical Causes of Japan’s Entrepreneurship Gap

❖ Educational Factors

- **Limited educational institutions** prepare students to be entrepreneurs.
- *“No more than 1% of the students were engaged in entrepreneurship”.*

❖ Legal Factors

- **Bankruptcy laws** should be modified because **debt is transferrable** – The family is still liable for the unpaid debt even if the founder dies.

❖ Financial Factors

- **Banks are unwilling to lend money** to entrepreneurs. Even if they did, banks tend to **impose harsh conditions** on start-ups.
- US-based venture capitalists view **Japan** as to its **small market**.
- Many **Japanese domestic venture capital firms are conservative** since they are managed by **salary men**.

Source: Knowledge@Wharton. (2013). Finance: The Entrepreneurship Vacuum in Japan: Why It Matters & How to Address It.



■ How to Promote Opportunity-Driven Entrepreneurship?

❖ The Israel Model

- Generation of a **robust venture capital & entrepreneurship** by **encouraging FDI**;
- Promotion of **open immigration policies**;
- Reallocation of **government spending**;
- Strengthening of **private-sector incubators**;
- Alignments of **research institutions, the military & aspirational entrepreneurs**; &
- Special emphasis on **entrepreneurship in schools** across the country.

Source: Knowledge@Wharton. (2013). Finance: The Entrepreneurship Vacuum in Japan: Why It Matters & How to Address It.

Ahmadjian & Robbins (2005). “A Clash of Capitalisms: Foreign Shareholders & Corporate Restructuring in 1990s Japan”, *American Sociological Review*, 70(3), 451-471.

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A Clash of Capitalisms in Japan



■ Questions

Q1: What characterizes **Japan's stakeholder capitalism** in comparison with the **Anglo-American system**?

Q2: **Why & how** do **foreign investors** affect **Japanese firms**?

Q3: Explain the underlying **rationale** for the **moderating effects** of **financial institutions & business groups** on the association between foreign ownership & firm strategy.

Q4: Do you think that **Japanese firms** are prone to **adopt** the **Anglo-American capitalism**? If yes, why? If not, why not?

Q5: Discuss **potential pitfalls & weaknesses** of this paper.

A Clash of Capitalisms in Japan



■ The Core Argument of This Article

❖ Research Goal

- To address theoretical questions about **interactions between different business systems**.
- To answer an empirical question: Is the **Japanese business model** being **dismantled & adopting** the **American shareholder system**?

❖ Why Important?

1. This study has implications for a broader understanding of **institutional change**.
2. There is a dearth of research on the potential **mechanisms** by which **business systems change or continue**.
3. Relatedly to the 2nd point, this study adds value to the **convergence-divergence literature** by investigating the **condition** under which **foreign investors exert pressures to firm strategy**.

A Clash of Capitalisms in Japan



■ Background & Theory

❖ Key Points

- A national economy is a configuration of actors – The state, corporate elites, labor, capital – whose interests are shaped by both formal rules & informal norms (Aguilera & Jackson, 2003).
- **Q: WHY** don't business systems converge even in the development of global markets for capital, products, labor & ideas?
 - i. There is **no one best way to organize an economy**.
 - ii. **Powerful actors** who shape institutions to advance their own preferences are likely to **resist change** (Fligstein, 2001).
- The **globalization** of financial markets & the emergence of **foreign investors** to invest in distant economies can be a **political process** by which **new actors with different interests** enter an economy.

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■ '2' Distinctive Business Systems

The Japanese System

- > A wide range of stakeholders (*i.e.*, employees, banks, customers, suppliers & shareholders) influence firm strategy.
- > **Long-term relationships.**
- > An assurance of **permanent employment & steadily rising wages for cooperative labor relations.**
- > **Strong norms against downsizing** since dismissing employees indicates an emotional issue.

The US System

- > **Shareholding** is a vehicle for investment.
- > “**Investor capitalism**” = “**Maximizing shareholder value**”.
- > Agency theory: Shareholders (**principles**) & managers (**agents**).
- > **Institutional investors** > individuals.
- > Pension fund managers **could be sued** if they do not act in the interests of beneficiaries.
- > **Firms that downsized** often are rewarded by the stock market.

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■ Foreign Institutional Investors Come to Japan

❖ The Rise of Foreign Ownership of Japanese Firms

- Between **1990 & 2000**, foreign ownership of Japanese shares soared from **4.2% to 13.2%** of all listed shares.

❖ Which Foreign Investors Dominate?

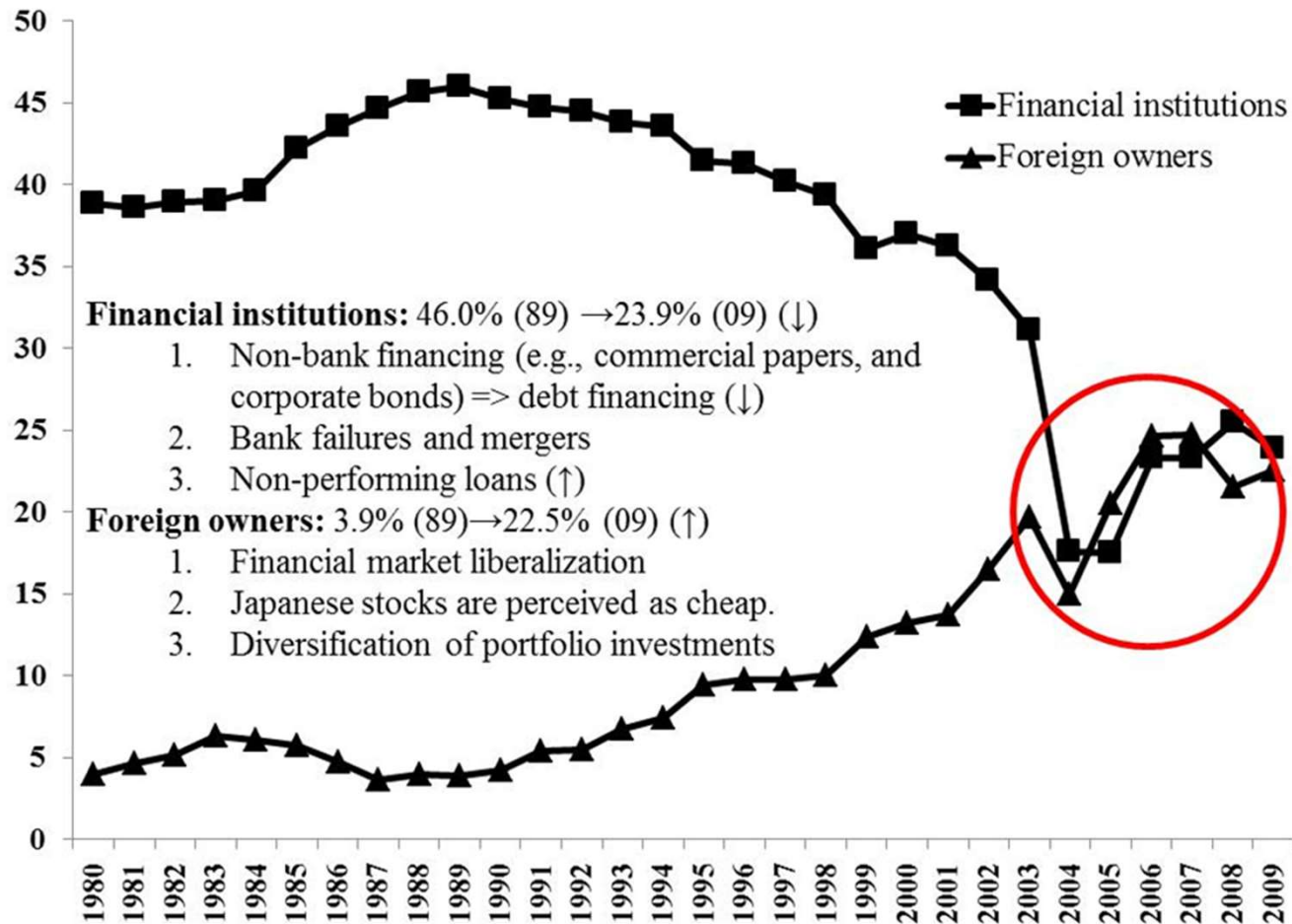
- The **top shareholders** of each firm were overwhelmingly **United States or United Kingdom based**.
- Other foreign investors included **offshore funds (Bermuda) & German funds** (*e.g.*, **Deutsche Bank**).

❖ Differences from Domestic Investors?

- Foreign investors set **higher required rates of return** than domestic investors.
- **Rising pressures** to Japanese firms to perform **aggressive restructuring**, such as **reinforcing business portfolios &/or liquidating low-profitability assets**.

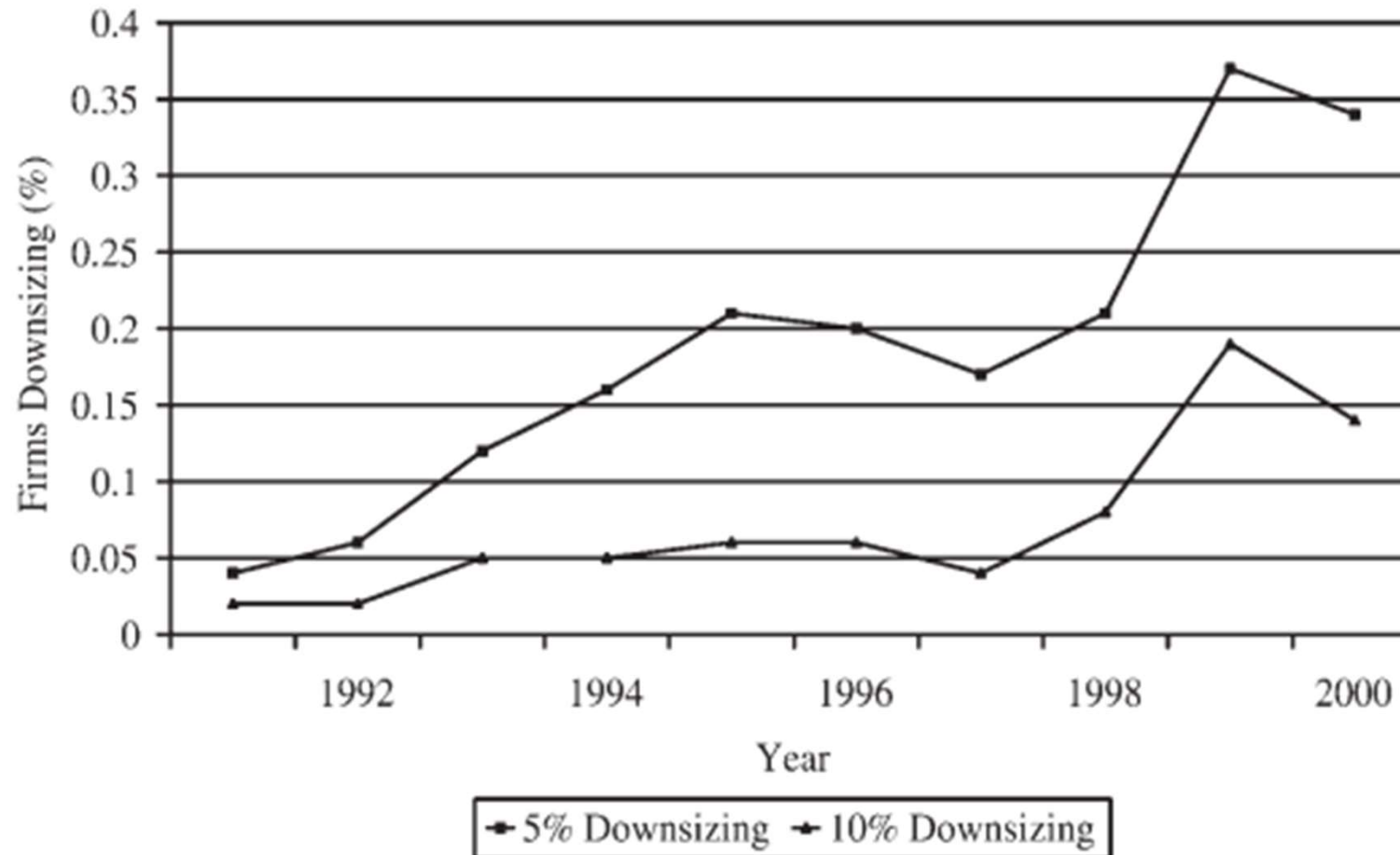
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■ Foreign Institutional Investors Come to Japan



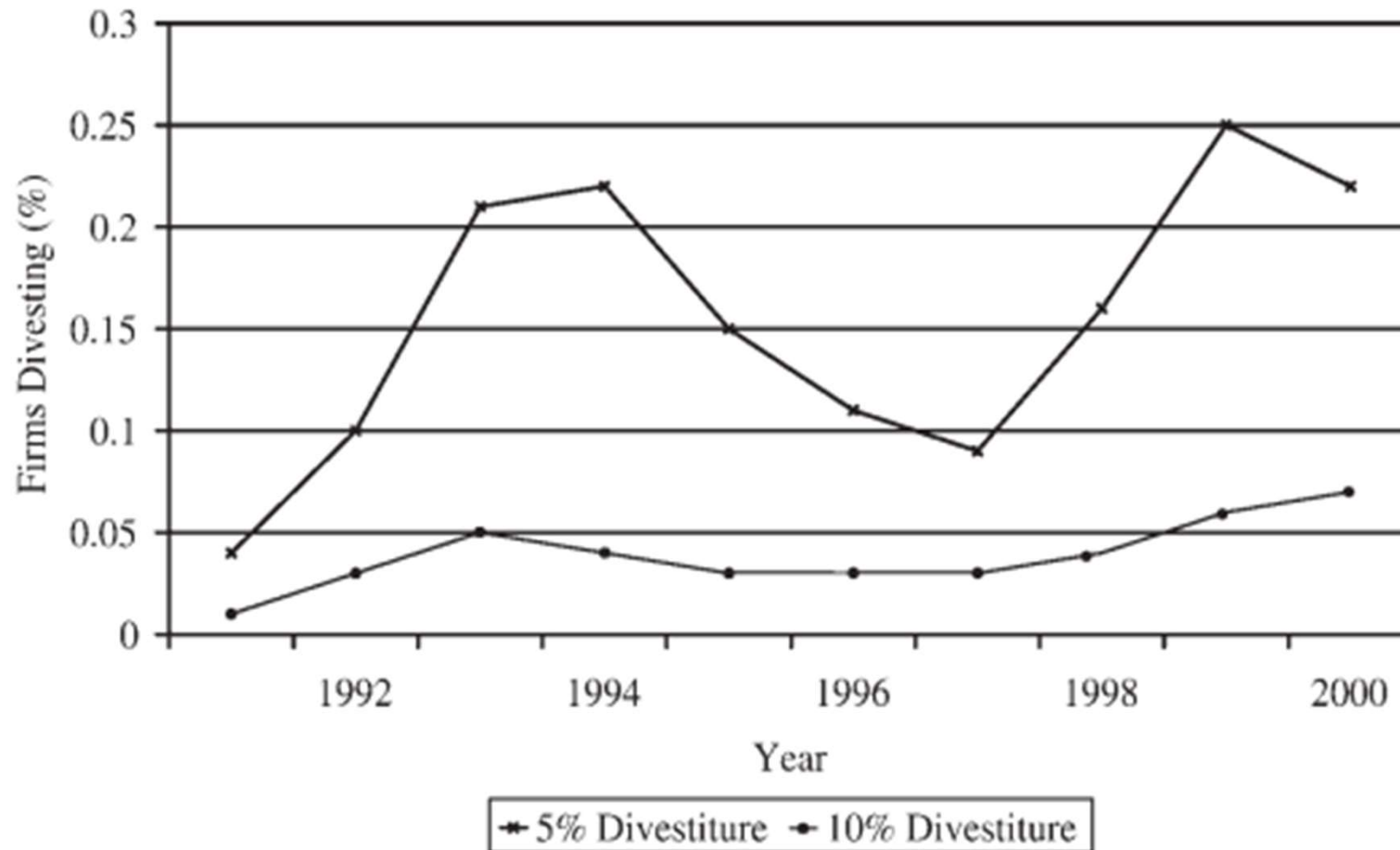
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■ % of Firms Downsizing in a Given Year, 1991-2000



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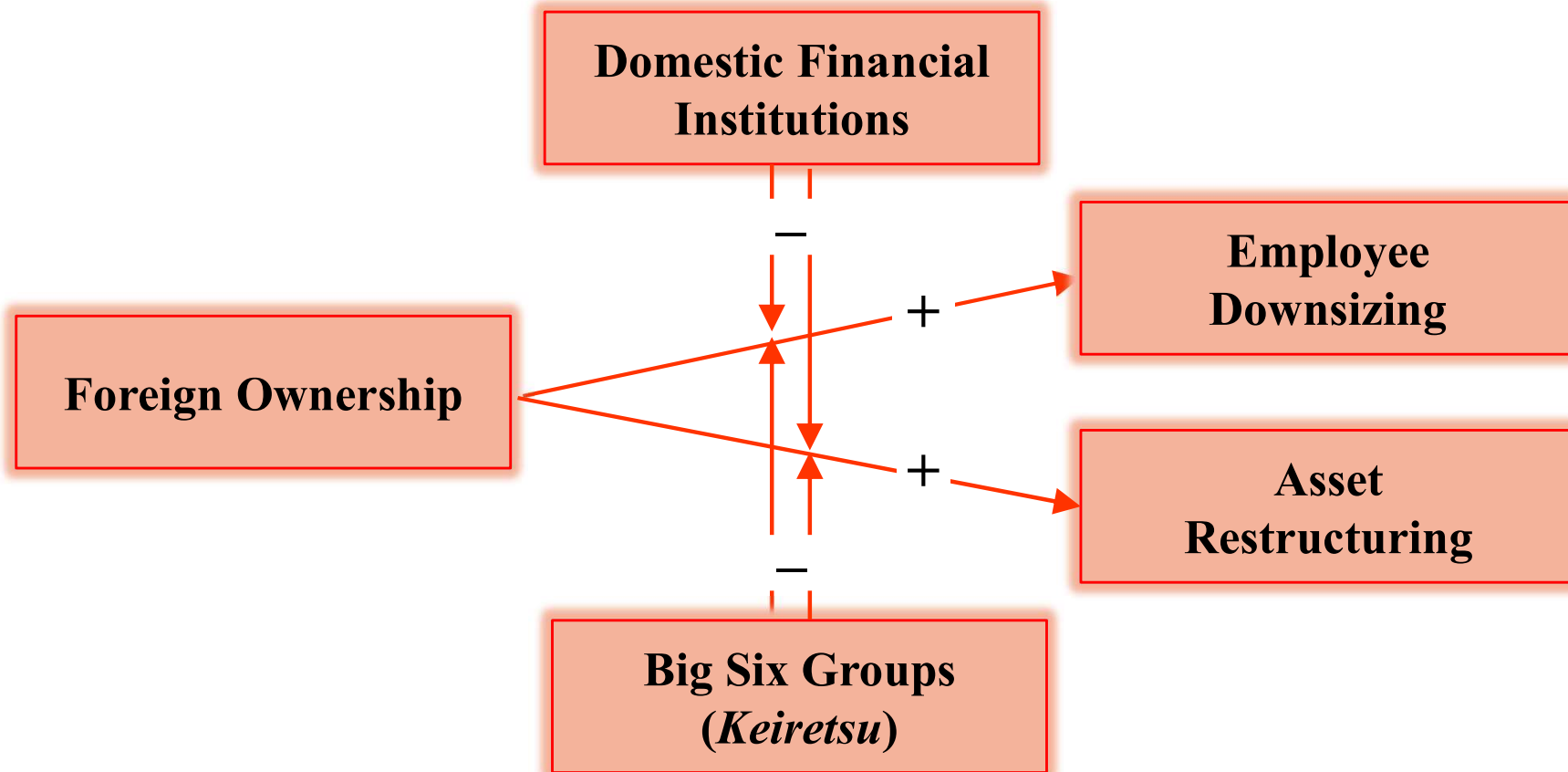
■ % of Firms Divesting Assets in a Given Year, 1991-2000



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■ Conceptual Framework

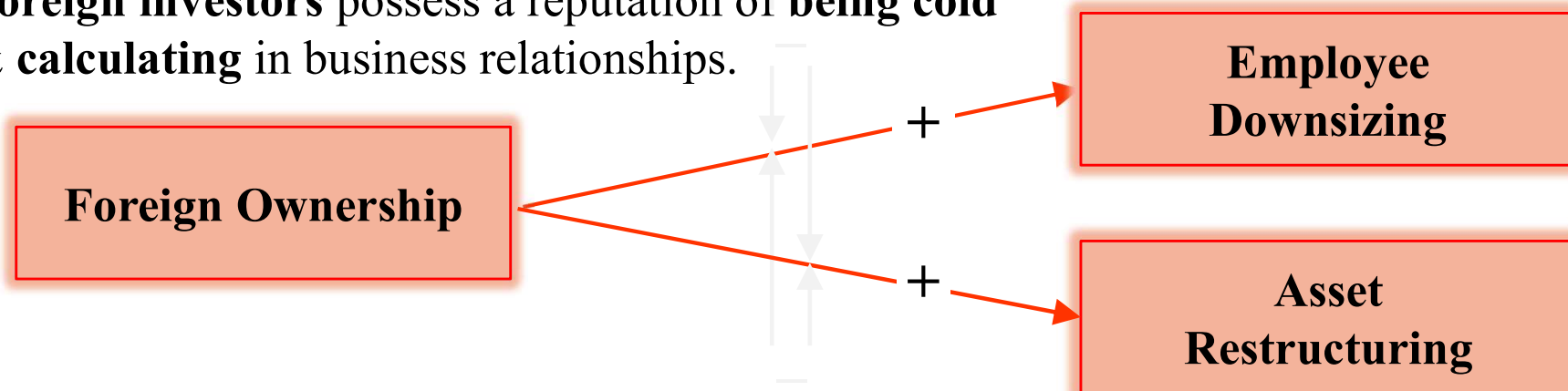


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■ Hypothesis 1

- ❖ Foreign shareholders use **exit & voice** to make their interests clear to management.
- ❖ Foreigners has an **excessive influence on share prices** because they were much more **active in buying & selling shares** than their Japanese counterparts.
- ❖ Foreign investors possess a reputation of **being cold & calculating** in business relationships.



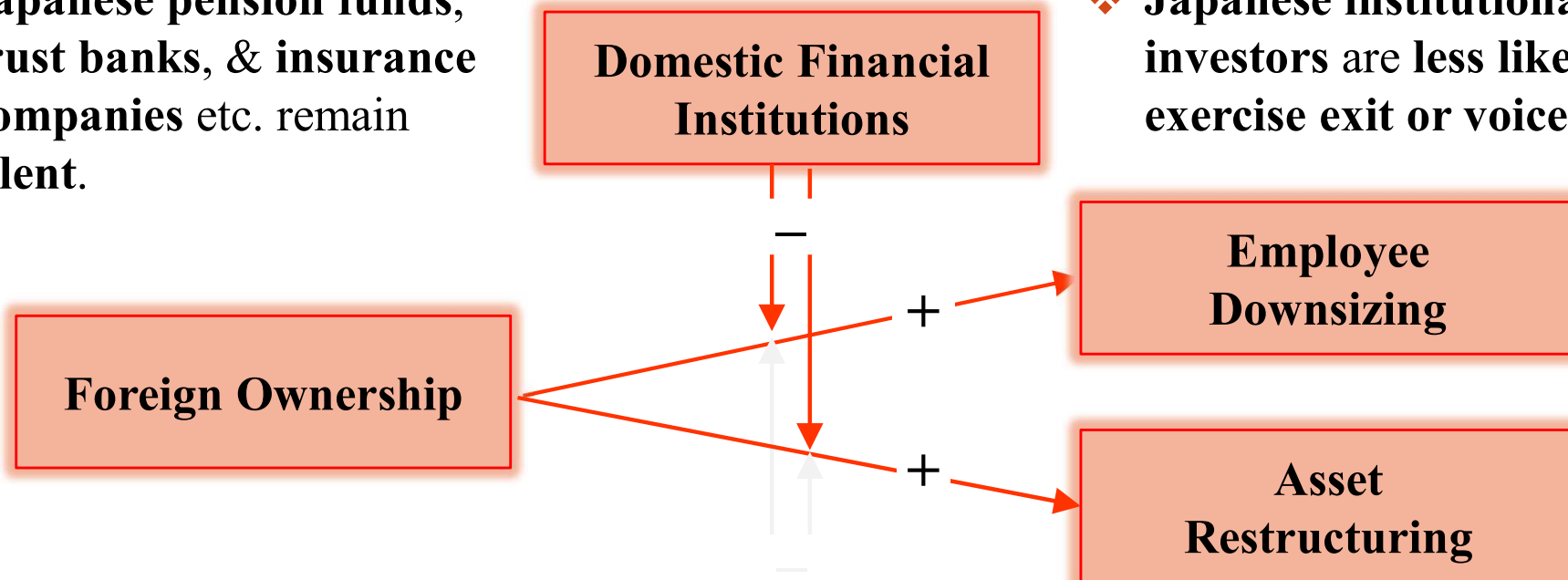
- ❖ *“When Japanese managers see foreign ownership on their share register moving from 5% to 10% to 20%, they feel a strong psychological pressure (a greater sense of urgency) to pay attention to corporate governance.*”

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■ Hypothesis 2

- ❖ Japanese pension funds, trust banks, & insurance companies etc. remain silent.



- ❖ Japanese institutional investors are less likely to exercise exit or voice.

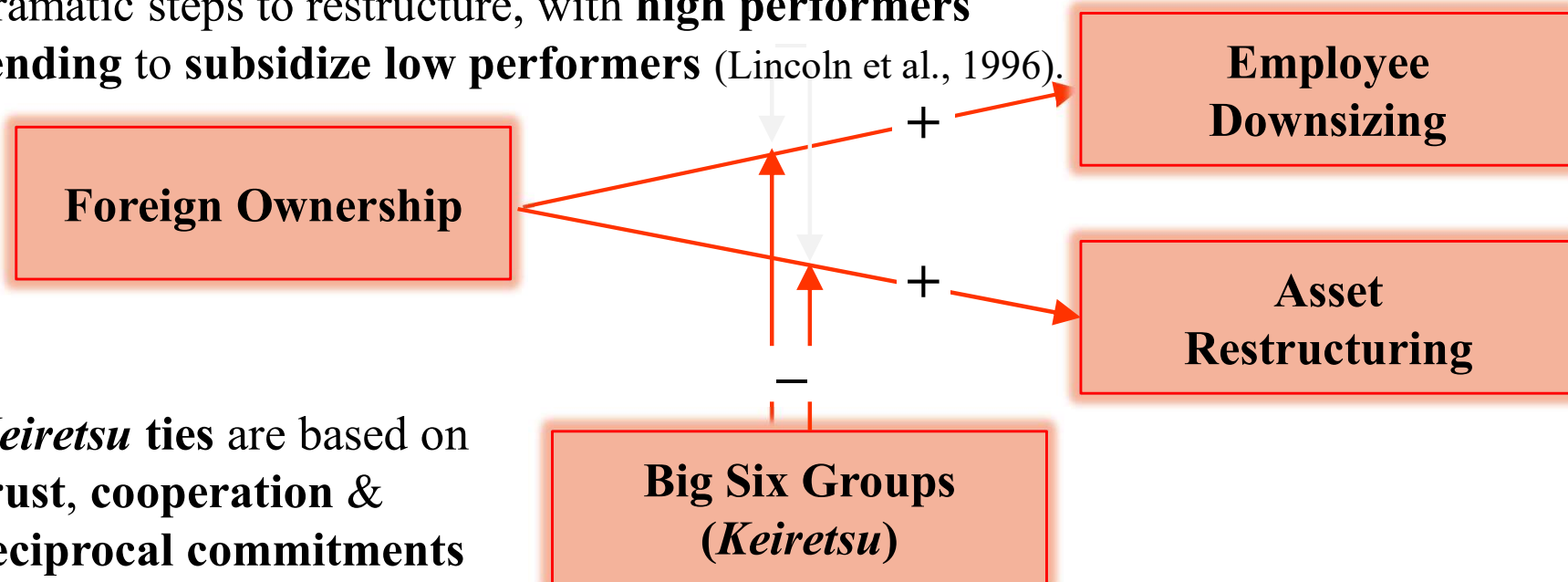
- ❖ Japanese institutional investors vote against an immediate return on their investments in favor of maintaining long-term relationships.
- ❖ *“Bankers try to avoid any drastic divestiture on the part of the clients at the expense of the bank’s own profit because banks should be socially responsible beings.”*

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■ Hypothesis 3

- ❖ Social networks are important in Japan, where a **dense web of ties**, through **ownership stakes, interlocking directorships, groupwide councils, & trading relationships**, links many firms into business groups (Gerlach, 1992).
- ❖ Business groups **buffer** firms from needing to take dramatic steps to restructure, with **high performers tending to subsidize low performers** (Lincoln et al., 1996).



- ❖ *Keiretsu* ties are based on **trust, cooperation & reciprocal commitments** over many time periods.

A Clash of Capitalisms in Japan



■ Empirical Results (Downsizings of 5% of 1,108 Firms)

% Shares held by foreigners (t-1)	-.157 (.260)	1.561** (.562)	.050 (.303)	1.470** (.564)
% Shares held by financial institutions (t-1)	-.258 (.136)	.044 (.161)	-.268* (.148)	-.005 (.164)
1 = Member of big six group	.130* (.054)	.137* (.054)	.296*** (.079)	.252** (.084)
% Foreign ownership * % Financial ownership		-5.320*** (1.524)		-4.588** (1.576)
% Foreign ownership * Member of big six group			-1.956** (.734)	-1.371 (.778)
Constant	-.357 (.420)	-.441 (.448)	-.456 (.449)	-.349 (.539)
Log likelihood	-4326.58	-4321.76	-4315.49	-4318.25
				-4313.91

Note: Random effects probit coefficients with standard errors shown in parentheses; 18 dummy variables for industry significant, not reported.

* $p < .05$; ** $p < .01$; *** $p < .001$ (two-tailed tests).

❖ A group member may be more likely to restructure if it knows that it can send its excess employees to another group member.

A Clash of Capitalisms in Japan



■ Empirical Results (Divestitures of 5% of 1,108 Firms)

% Shares held by foreigners (t-1)	-.023	1.836**	-.011	1.878**
	(.263)	(.564)	(.272)	(.567)
% Shares held by financial institutions (t-1)	-.031	.286	-.032	.305
	(.136)	(.161)	(.136)	(.163)
1 = member of big six group	-.021	-.014	-.009	-.067
	(.058)	(.058)	(.088)	(.089)
→ % Foreign ownership * % Financial ownership		-5.700***		-6.010***
		(1.522)		(1.573)
% Foreign ownership * Member of big six group			-.138	.642
			(.780)	(.808)
Constant	-.453	-.516	-.487	-.517
	(.441)	(.470)	(.471)	(.472)
Log likelihood	-4165.57	-4165.47	-4158.32	-4165.46
				-4158.01

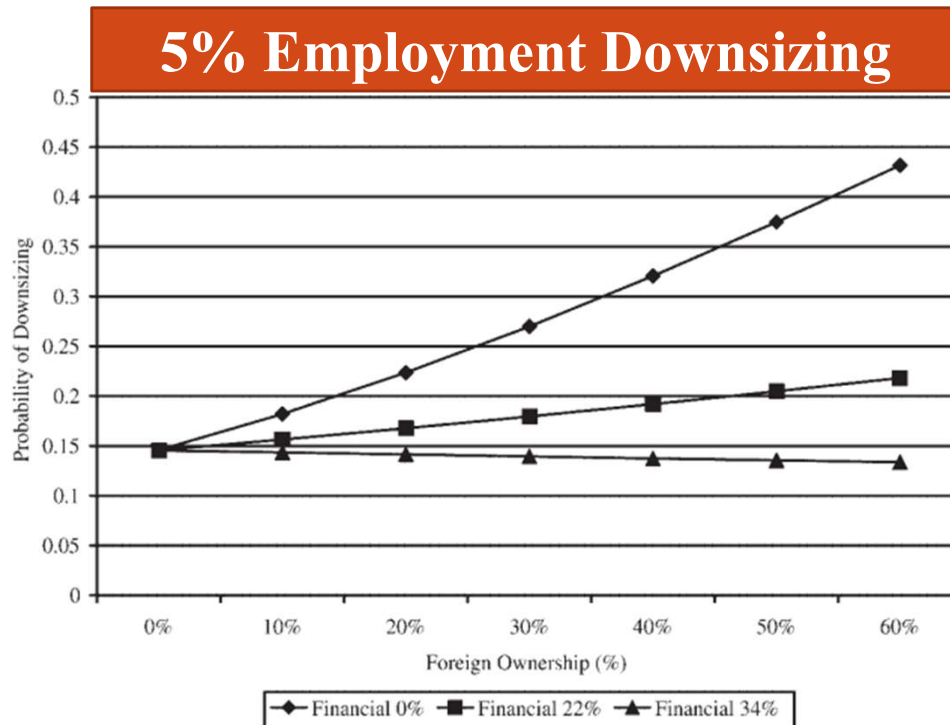
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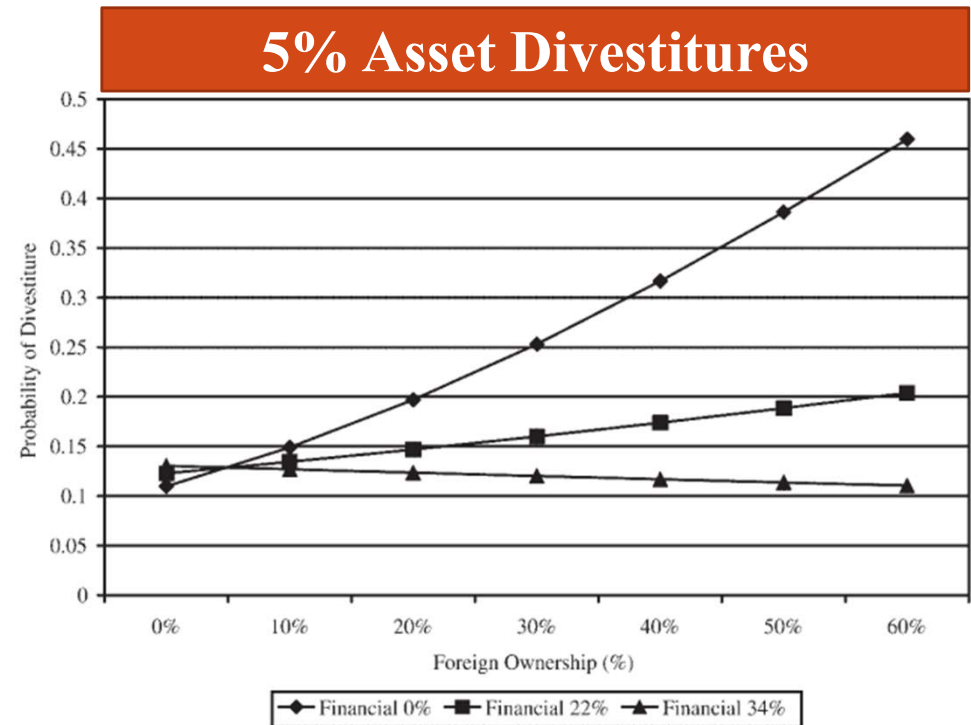
❖ Firms with higher levels of ownership by domestic financial institutions were able to resist the influence of foreigners.

A Clash of Capitalisms in Japan

Foreign Influence × Financial Institutions



- ❖ In a firm with no financial ownership, an increase in foreign ownership from 0 to 60% increases the probability of downsizing from 15 to 45%.



- ❖ Foreign investors were influenced primarily in firms less embedded in the existing stakeholder system in terms of decreases in total tangible fixed assets.

A Clash of Capitalisms in Japan



■ Conclusive Remarks

❖ Managerial Relevance

- **Foreign ownership** leads to **increased restructuring** in firms unlikely embedded in the **Japanese stakeholder system**.
- **Foreign actors**, with different interests & incentives, **replaced local shareholders** who were tightly linked to the stakeholder system.
- The **Japanese stakeholder system** was **NOT overwhelmed** by a superior shareholder system.
- Restructuring among foreign owned firms may **remove** the perceived **illegitimacy of radical strategic actions** & encourage their **spread** to larger, older, & more prestigious firms.

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■ Conclusive Remarks

❖ Suggestions for Future Research

- Identify **different types of foreign portfolio investors** & their influence: *e.g.*, (1) large index funds, (2) hedge funds, & (3) other actively managed funds.
- The **validity** of this study's results needs to be verified by **comparing the influence of foreign investors across national borders**.
- More research should be conducted to explore how **foreign investor influence on firm behavior changes by economies & cultures**.

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Merci beaucoup !

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

【Contact Address】

ADDRESS: 208 in Via dei Caniana 2, 24127 Bergamo, ITALY

E-mail: norifumi.kawai@unibg.it

Aoyama (2007). “Oligopoly & the Structural Paradox of Retail TNCs: An Assessment of Carrefour & Wal-Mart in Japan”, *Journal of Economic Geography*, 7: 471-490.

PROF. DR. NORIFUMI KAWAI, MPIA (Pittsburgh)

International Business & Trade
Università degli Studi di Bergamo
Dipartimento di Scienze Aziendali
Bergamo, ITALY

Failed Cases of Carrefour & Wal-Mart in Japan



■ Question

WHAT mistakes did Carrefour & Wal-Mart make in Japan?

Failed Cases of Carrefour & Wal-Mart in Japan



■ Wal-Mart & Carrefour in the Japanese Market in the Early 2000s.



Source: Aoyama,(2007).

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■ The General Trend of Foreign Food Retailers in Japan

- ❖ **Small-scale operations:** CostCo (US, 1999, 5 stores) & Metro (Germany, joint venture with Marubeni Trading, 2002, 3 stores).
- ❖ **New rivals:** 99-yen grocery stores, 100-yen stores, electronics stores etc.
- ❖ **Divestments of retail TNCs** from Japan: Sports Authority (USA, 96), Footlocker (USA, 97-00), Warner Studio Store (USA, 96-00) & JC Penny (USA, 98-99).
- ❖ **Daily Farm**, a successful HK retailer, set up a joint venture with Seiyu & opened 4 stores in Japan, was forced into closure due to lackluster sales in 1998 due to the **lack of competitiveness** in fresh food items unattractive store & poor shelf design & competition from domestic stores.
- ❖ **Carrefour & Wal-Mart** in Japan: **Delivering lower prices.**

Source: Aoyama,(2007).

Failed Cases of Carrefour & Wal-Mart in Japan



■ General Information

Carrefour Japan

- > **8 stores** in Japan starting **2000**.
- > Wholly-owned subsidiaries (**WOS**).
- > Carrefour's overseas expansion to seek out **partnerships with local firms** & to acquire **market-specific knowledge**.
- > **13 stores** by the end of 2003.
- > The first store in a **Tokyo suburb** of Makuhari in December 2000.
- > A "**ghost-town**" in an early afternoon of a weekday.
- > The **inability of securing a buyer**.
- > 3 stores in the **Tokyo** region & 5 stores in the **Osaka** region were sold to Aeon.

Source: Aoyama,(2007).

Wal-Mart Japan

- > **Alliance** with Sumitomo Trading & purchased a 34% share of **Seiyu** (2002) → **50.1% (2005) & 66.7% (2007)**.
- > **No visible changes** in storefront design & product variety due to Seiyu's name recognition among Japanese consumers.
- > **Voluntary early retirement** of **25%** of its **full-time employees** & raising the **share of part-time employees to 85%**.
- > However, the **lay-off** reportedly had **negative impacts** on the moral of Seiyu employees.

Failed Cases of Carrefour & Wal-Mart in Japan



■ Mistakes?

❖ **WHAT** explains the problems of retail TNCs in Japan?

➤ **Key points:** (1) **operational efficiency** & (2) **branding**.

❖ In the supermarket category, the most common strategy employed among foreign retailers is **low price**.

❖ **Low-price-strategies** of foreign retailers have been **criticized as unsuitable** for the Japanese market.

❖ **WHY** did Japanese consumers **NOT** flock to their stores?

(1) Carrefour & Wal-Mart focused on the **low-price strategy** in spite of the relatively small share of low-income households in Japan & a small market for low-end products. (**Japan: low inequality**)

Source: Aoyama,(2007).

Failed Cases of Carrefour & Wal-Mart in Japan



■ Mistakes (Operational Efficiency)

❖ **WHY** did Japanese consumers **NOT** flock to their stores?

(2) The **attitude** of the **Japanese consumers** toward price is particularly **complex**. → Relatively **price-insensitive**.

This contradicts with Carrefour & Wal-Mart's fundamentally scale economy driven approach in Japan. Wal-Mart was keen on introducing its trade-mark **“ever-day-low-price” strategy** at its Seiyu stores with much fanfare. Seiyu failed to consistently undercut competitors' prices. A typical Japanese grocery shopper closely examines **several flyers** of nearby supermarkets & identifies **frequently changing sales items**, & switches where to shop daily. Consumer finds it more economical to continue with the **practice of price comparisons & switching places to shop** on the daily basis.

Source: Aoyama,(2007).

Failed Cases of Carrefour & Wal-Mart in Japan



■ Mistakes (Operational Efficiency)

❖ **WHY** did Japanese consumers **NOT** flock to their stores?

(3) Both companies insisted that their strategies for low-cost operations that worked elsewhere would eventually win customers in Japan. They **stacked up high in large quantities on shelves** for visibility & shelf space maximization, but at the expense of store attractiveness.

Seiyu's clientele was mainly the **middle-aged & elderly loyal customers** who were not impressed with low-cost display of bulk.

(4) Carrefour reportedly insisted on transferring other proven strategies from their home markets. **Store layout** was designed to direct customers to form **a one-way traffic from entrance to exit.**

Supermarkets substitute for **'refrigerators' in Japan** → **Lean consumption.**

Source: Aoyama,(2007).

Failed Cases of Carrefour & Wal-Mart in Japan



■ Mistakes (Operational Efficiency)

❖ **WHY** did Japanese consumers **NOT** flock to their stores?

(5) **Domestic competitors** employed strategies that went directly against the retail TNC's low cost approach.

Visibility & customer appeal, great variety in a vigorous thriving atmosphere. They particularly exhibit particular **sensitivity to seasonal changes** in food items, **awareness to gift giving seasons, love new products** & consider **freshness** as extremely important. → For example, merchandise in its fresh seafood section **changed 3 times as a day**; whole fish from nearby ocean in the morning, sliced into sashimi in the afternoon; & marinated & grilled fish in the evening.

Source: Aoyama,(2007).

Failed Cases of Carrefour & Wal-Mart in Japan



■ Mistakes (Branding)

- ❖ The Japanese consumer has been referred to as the ‘**most difficult consumer to strategize**’, as they require **high quality** on everything, & are **knowledgeable** about products, service, quality & prices from around the world.
- ❖ **Image gap**: Japanese consumers’ previous experience with French retailers was largely shaped by luxury boutiques (e.g., Chanel, Louis Vitton & Hermes).
- ❖ Wal-Mart’s **low-cost, low-quality approach** was widely blamed for its most recent **poor performance** as it ruined Seiyu’s highly profitable apparel section.

Source: Aoyama,(2007).

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