

**Problems and Solutions to
Japanese Investment Abroad**

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Occasional Paper No. 9

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This paper originated as a lecture given on February 18, 1992 at the Columbia University Graduate School of Business as part of the Japan Distinguished Business Leaders Lecture Series, co-sponsored by the Center on Japanese Economy and Business and the Japan Business Association.

Occasional Paper Series
Center on Japanese Economy and Business
Graduate School of Business
Columbia University
March 1992

Good evening ladies and gentlemen.

The title of my speech tonight is, "Japanese Investment Abroad: Problems and Possible Solutions"

First of all, let me talk about the necessity for Japan to cooperate more with other countries. As you might know, Japan lacks natural resources. We have to import energy, food and other important resources from other countries. A good example of this is Kikkoman. The main raw materials for our soy sauce are soybeans and wheat, most of which have to be imported from the United States. In fact, the self-sufficiency ratio for soybeans in Japan is only about 5% which means, of course, we have to import 95%. For wheat, it is about 15%; so 85% must be imported. Therefore, for a typical Japanese food such as tofu and the most typical of all Japanese seasonings, soy sauce, the soybeans and wheat are mostly imported. Furthermore, because most of the petroleum products used in Japan have to be imported, when something like the Gulf War starts, Japan is especially vulnerable. Japan is a country which greatly depends on other countries. These are a few simple examples that show how very important it is for Japan to cooperate with other countries.

The Japanese economy has been growing and has matured to the point that it is now an important part of the world economy. This naturally means that Japan is even more affected by any significant movements within the world economy. At the same time, any significant movement in the Japanese economy affects other parts of the world more than in the past. Japan is a country which is now an integral part of the international community.

Under these circumstances, I am greatly concerned with the recent appearance of investment friction.

In the past, economic friction meant only trade friction. But recently, investment friction has also appeared on the horizon. Since trade friction appeared, exporting from Japan became increasingly difficult or even restricted, either directly or indirectly. Japanese companies came to the realization that investment in a foreign country was one good way to seemingly overcome this touchy issue. That is one reason why Japanese companies started to build factories overseas. However, now, as I said, investment friction is at the forefront. If not only Japanese trade but also Japanese investment is restricted either directly or indirectly, Japan will certainly face a great many problems.

We have to try our best to avoid investment friction as much as possible.

Before talking about how to actually avoid investment friction, we should first look at why investment friction started.

One reason for investment friction is that there is an overpresence of Japanese investment. Namely, Japanese companies concentrate their investment too much in certain industries or certain areas of the world. In the past, "shuchugou gata yushitsu" or a heavy shower-style or concentrated trade caused trade friction. Now, we see a similar situation in the investment field which has subsequently led to investment friction.

The second reason for investment friction is that Japanese companies investing overseas are apt to forget about the vital importance of the localization of management. There are several reasons why Japanese companies unconsciously forget about this localization of management. First, recently, Japanese investment in developed countries has been increasing more rapidly than in developing countries. In developing countries, we are more or less forced by the government to have a localization of capital. That means, we have to have some participation of local capital in order to make investments in developing countries. In other words, a joint-venture, since these countries restrict the percentage of foreign investment to, for example, 49% or even

down to 40%. So, we need to have a partner or partners there; whether we like it or not. Because we already have local partners there, we unconsciously localize management since it is necessary to obtain approval from local partners on important decisions.

In the case of developed countries, in most cases, forming a 100%-owned subsidiary is usually possible. And the majority of the companies investing in developed countries usually do form a 100%-owned subsidiary. I am not saying that a 100%-owned subsidiary is wrong. But the problem is that if this 100%-owned subsidiary is formed, the localization of management is likely to be forgotten or even ignored. For instance, if there is a subsidiary to manufacture certain products in New York State, even though that company is a 100%-owned subsidiary, it is also a New York corporation and is independent from the parent company. But Japanese companies might think that this is just another factory of the parent company since it is a 100%-owned subsidiary and will give various orders to the factory; sometimes in detail. Then, there cannot be any localization of management. This is a reason why the localization of management is forgotten while Japanese investments in developed countries continue to increase.

Another reason why the localization of management might be forgotten is that there are so many invitations for Japanese companies to invest overseas. For instance, more than thirty out of the fifty states have offices in Japan; one of the main purposes being to invite Japanese investment to their individual state. Some European countries have also been active in trying to attract Japanese investment. Many state governors personally

visit Japan and call on Japanese companies to tell them how attractive their state is for Japanese investment.

Of course there are reasons why Japanese investors are invited.

There are two main reasons: one is that they can expect an increase in employment in their state through this Japanese investment; and second, they can expect vitalization or the revitalization of the local economy through Japanese investment. They expect Japanese companies to do business with local companies.

But some Japanese companies are apt not to realize these reasons behind the invitation because the invitations are usually so nice. Then, the Japanese company does little or nothing after the investment. In a case like this, local expectations are so high that the subsequent dissapointment is large indeed.

So far I have talked about why investment friction has appeared.

The next point is how to try to avoid investment friction.

Needless to say, in order to avoid investment friction, the reasons behind it have to be eliminated.

First, the overpresence of Japanese investment has to be avoided. Japanese or Japanese companies have a tendency to look at their friends or competitors to see how and what they are doing. For instance, in elementary school, if the teacher asks the students to answer a certain question, the students will first look around the class at each other to see whether somebody might be trying to answer. If someone looks as if he or she might be ready to answer, then several of the students who knew the answer in the first place will raise their hands almost at the same time. I remember experiencing this when I was in elementary school. It is the same for Japanese companies. If some company decides to invest in a certain country or a certain state, other companies will follow suit or at least have a similar line of thought. So, eventually, Japanese investment overseas is apt to be concentrated in certain countries, certain areas of those countries and in certain industries. Of course, it might be a bit difficult for Japanese companies to change this way of

thinking. But I must say that Japanese companies should try not to concentrate their investments in certain countries, areas or industries.

This avoidance of concentration is good in that it will help decrease the overpresence of Japanese companies which in turn will result in a decrease of investment friction. Also, it will lower the risk of failure of Japanese investment. According to statistics, even in the past one out of five Japanese investments overseas have failed. In the future, if the internationalization of Japan continues to accelerate, not only companies that are accustomed to doing business overseas but companies with little or no experience doing business overseas will start to invest in foreign countries. Then, the failure ratio overseas will probably increase.

So, before they invest, companies must have detailed feasibility studies. They should not make the decision to invest overseas only by looking at which other companies are "raising their hands". Failures might also produce yet another kind of friction. If they fail, they have to fire the employees and terminate the various agreements that they have made with the local companies. There will be an unfavorable impact on the local community that will leave a bad taste in everyone's mouth. So, to avoid an overpresence of Japanese investment overseas,

sometimes also means avoiding this kind of new, unwanted friction.

The second point, when trying to avoid investment friction, is trying to successfully co-exist and co-prosper with countries, states and communities where we invest. To actualize this philosophy, there must be a localization of management.

There are two important elements in the localization of management.

First, as many local people as possible should be employed at all levels and they should be promoted. Of course that means the number of Japanese employees sent from the parent company should be minimized. But, not only in domestic operations but also in international operations the rule should be to put the right person in the right job. So, it is necessary for these companies doing business overseas to have Japanese employees sent from the parent company to be in certain positions at certain stages of business.

However, we always have to keep in mind that as many local people as possible should be employed and promoted.

The second point in localizing management is that we have to be more positive to try to do business with local companies and in the case of America, with American companies. I sometimes hear of claims that some Japanese companies after investing have brought along their suppliers with them to the foreign countries.

Under practical circumstances, bringing along some suppliers might be necessary, to some extent. However, again, we have to keep in mind that we should try to do more business with local companies as much as possible.

In the case of Kikkoman, since we built our soy sauce factory in Walworth, Wisconsin, nearly nineteen years ago, we have been continually trying to localize our management. There are two factors behind this. First, we have realized the importance of co-existence and co-prosperity with the local community through our long experience in Japan. We started the business of making soy sauce in the 17th Century about 350 years ago in Noda City, Chiba Prefecture which is 25 miles northeast of Tokyo. We have had very friendly relations with the local community. We have helped the local community and the local community has helped us. There has been productive interdependence between Kikkoman and the local community. So, we do know about the extreme importance of having co-existence and co-prosperity with the local community and the localization of management.

Second, we have re-realized the importance of this concept when we faced a movement against us by the local people in Walworth, Wisconsin. It was when we decided to locate our plant there in the early seventies. Because that area is purely agricultural, the local people were against us when we applied for a rezoning of the land we had bought. They were against us because they were under the impression that any factory would cause environmental problems. They were not against us because we were a Japanese company or a soy sauce manufacturer but because

they were simply afraid of any form of pollution which, they thought, would be caused by any factory.

It took us two and a half months to finally persuade the local people and the local government. We explained in detail that a soy sauce factory is pollution-free and since we use soy beans and wheat as raw materials, we could co-exist and co-prosper with the agricultural community. Finally, they understood us and gave us their approval.

Through this experience, we once more realized that in order _____ to do business we have to have this co-existence and co-prosperity with communities where we locate. So, we have continually been trying to localize management at our Wisconsin Plant.

Now, let's look at the contents of our localization of management there.

First, Kikkoman has a policy to do business with American companies rather than Japanese companies when the conditions are almost the same. Among Americans companies, we have been trying to do business with local companies as much as possible. We have been using an American general contractor to build and expand our facilities. Our major manufacturing equipment has been produced in the United States. All raw materials and packaging materials have been purchased from American companies.

Second, we have been trying to employ as many local people as possible in Wisconsin and promote them. There is a limit to this promotion policy in the case of a soy sauce factory. The limit being--- since a soy sauce factory is capital intensive and although the capital investment is quite high, the total number of employees is rather small. Also, most Americans are not so familiar with soy sauce so it is somewhat difficult to find a suitable American production manager who would be in charge of modern, sophisticated soy sauce production facilities related to biotechnology.

Still, we have tried to employ as many local employees as possible and promote them.

The third point is to participate in local activities. For example, the general manager of our factory there who is Japanese is a member of the Rotary Club and so on. I, myself, was a member of the Business Development Council for the State of Wisconsin and am now the Honorary Ambassador of the State of Wisconsin to Japan.

The fourth point is to let our employees from Japan become 'real' citizens of the local communities. We encourage our people to live in several different communities in order to avoid forming a Japanese village. At the beginning, it is rather tough for our people to come from Japan and live in an American community because not only the language but also the culture and customs are so much different.

However, as they become accustomed to the American way of life, they start making many new friends and begin to enjoy their lives in the community.

The fifth point is to delegate authority to local management as much as possible. However, it often happens that those who say, "we delegate" actually do not delegate authority. To avoid this kind of mistake, we have a small rule in Kikkoman. This rule is, "Do not send orders from the parent company by fax, telex, letter or by telephone." Of course, we use these means of

correspondence for usual communications. But, if we have something of importance to say or do, we go there and talk with local management in person and then decide. If we are not able to go, we use a telephone conference. Anyway, we try to avoid using "remote control" from Japan.

Next, in order to avoid investment friction, when we bring Japanese-style management to our operations abroad, we try to be very careful. In the past decade, so-called Japanese-style management has become a topic of interest among businessmen, journalists and professors in the U.S., Europe and other countries. Some of them have given Japanese-style management a high evaluation. There are several reasons for this. They feel that one of the reasons Japan had high economic growth in the past was the existence of this Japanese-style management. I feel that Japanese should not brag about this and must realize that it is sometimes very dangerous to bring Japanese-style management to overseas operations. There are several reasons for this.

First, Japanese-style management has various advantages but also various disadvantages. For instance, the Japanese-style bottom-up decision-making system in Japan has the advantage of quick implementation after the decision has been made. In the process of decision-making, there are a lot of people involved and they understand the decision. So, once the decision has been made, implementation is naturally quick.

However, it has disadvantages, too. One is that in the process of decision-making there are, as I said, many people involved and therefore the process takes a long time.

The next example is about lifetime employment. It is an advantage to give stability to not only the employees but also to the company. Employees can make lifetime plans when they are relatively young. For instance, because they can expect promotions and wage increases to some extent, they can plan accordingly when purchasing a house or a condominium. At the same time, the company can have a career development program for each employee. The company can invest money in employee training and development because it can expect them to stay for many years, usually until retirement age. However, this also has disadvantages. One is that young people have to decide in their early twenties or even late teens where they want to work for the rest of their lives. It is rather difficult for them to change jobs if they find the company in which they work unsuitable for them. The situation in Japan has been changing but basically this is true.

Anyway, there are both advantages and disadvantages in Japanese-style management but those who highly evaluate Japanese-style management are apt to look at only the advantages. So, Japanese should refrain from bragging about Japanese-style management.

And second, people are apt to lean too much on their own style of management. So as a way to balance it out, they have

interest in other styles of management. For instance, Japanese-style management attaches importance to human factors whereas American-style management seeks efficiency. Japanese businesspeople tend to lean too much on their own style of management but sometimes have interest in the American-style; seeking efficiency. On the other hand, American businesspeople lean too much on their own style and realize that seeking too much efficiency actually means losing efficiency. So they began to express interest in Japanese-style management. I think that this is the reason behind the recent phenomenon of Americans having interest in Japanese-style management.

However, the best style is an optimum mixture of the human factor and efficiency. From this, I can say again, that Japanese should not brag about Japanese-style management.

Third, there is a relationship between the business climate and management style. Maybe the existence of Japanese-style management was one of the reasons for Japan's high economic growth in the past. However, at the same time, we can say that because there was high economic growth, Japanese-style management existed.

Since Japan started to have lower economic growth, the so-called Japanese-style management has been changing to some

extent. So even in Japan, as the business climate changes, the management style changes. Therefore, we have to understand that it is sometimes difficult and sometimes dangerous to bring Japanese-style management into foreign countries where the business climate is different.

These are three reasons why Japan should not brag about Japanese-style management and be careful when trying to export it.

Here, I would like to mention that especially in marketing, we have to follow the way which is accepted in each local market since marketing is the business front which is affected by local circumstances.

For instance, when doing business in the United States, we should follow the American-style of marketing practices. When a company does business in Japan, the Japanese way should be followed.

Now, let me mention about the differences between the American and Japanese ways of marketing. One basic difference is that whereas Japanese marketing is "wet", American marketing is "dry". In other words, Japanese marketing is affected by human factors while American marketing is more businesslike. For instance, if a manufacturer in Japan has had a long relationship with the wholesaler, even if the wholesaler loses some of his power for some reason, it is very difficult for the manufacturer to cut ties. It is also difficult for the wholesaler to end a relationship with the manufacturer even if the manufacturer becomes weak. In the U.S., it is easier for a manufacturer to cut ties with the wholesaler if the wholesaler's power decreases and vice versa. This is one basic difference.

Finally, in order to avoid investment friction, the most important point is to have high quality people with the proper qualifications who are willing and able to run an overseas business.

The first qualification is to have the adaptability to a foreign culture. They have to, "Do In Rome As The Romans Do."

A second qualification is to be able to communicate using foreign languages especially English since English is an international language. Of course, we can use interpreters when we have important discussions but it is costly and time-consuming to use interpreters in daily business.

These two qualifications are the most basic qualifications for any international businessperson.

In any country or in any society or in any company, it is essential to keep a thick strata of people who meet these two basic qualifications. When we need a qualified plant manager, we can find one from this strata. If we are in need of an accounting manager, we can refer to this thick strata. At present, most companies do not have this thick strata of qualified people. So when we are in need of a plant manager, we find a suitable person for that function without thinking about his qualifications as an overseas businessperson and have to therefore train that person in the language and the foreign culture. However, in the coming twenty-first century, we can see a bright future for Japan. As Japan's internationalization progresses, the number of Japanese living overseas increases. Most of them take their families with them. This means that the number of children who have experienced life overseas increases. They can more easily assimilate and adapt themselves to the foreign culture and they learn the foreign language almost automatically. That means that in the not so distant future, Japan can expect an increase in this thick strata which will consist of these children who have lived overseas and who have the basic qualifications for international business.

In addition, exchange programs for high school students with foreign countries have been increasing in Japan. Japanese high school students go abroad and usually stay for one year. They are

young enough to absorb foreign cultures and learn foreign languages rather quickly. These students will become businesspeople and we can expect them to form important segments of the thick strata which I just mentioned.

So, I feel that we can expect a bright future in Japan in the coming century.

Today, under the title, "Problems and Possible Solutions to Japanese Investment Abroad", I first mentioned the necessity for Japan to cooperate in the world. Then, I said that I was greatly worried about the appearance of investment friction.

Next, I talked about the reasons for investment friction and made several proposals on how to avoid it.

First, I said that we have to avoid an overpresence of Japanese investment. Second, I stressed that the localization of management is most necessary. Third, I talked about the extent of bringing Japanese-style management into foreign countries. And fourth, I said that it is very important to have high quality people with the necessary qualifications and those that are willing and able to manage an overseas business.

Thank you very much.